

1 HOUSE OF REPRESENTATIVES
2 COMMONWEALTH OF PENNSYLVANIA
3 COMMITTEE ON COMMERCE

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6 RE: Mortgage Foreclosures and Predatory
7 Lending

8

9 Carnegie Municipal Building
10 One Veterans Way
11 Carnegie, Pennsylvania
12 April 20, 2007
13 9:30 a.m.

14

15 Majority Chairman Honorable Peter J. Daley
16 Honorable Nick Kotik
17 Honorable Mark Longietti
18 Honorable Matt Smith
19 Honorable Chelsa Wagner
20 Honorable Jesse White
21 Honorable Jaret Gibbons
22 Honorable Lisa Bennington

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25 Reported by:

26 William E. Weber, RDR, CRR

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1 CHAIRMAN DALEY: We call this
2 meeting together of the House Commerce
3 Committee held here in Carnegie, Pennsylvania.

4 I would like to thank
5 Representative Nick Kotik of the 45th
6 district, this is his home district, he is a
7 member of our committee and subcommittee
8 chairman. We thank him for the opportunity
9 setting up this meeting. Also we thank all
10 the people that will testify today. We will
11 try to keep things running on schedule. So,
12 just bear with us as we go through the
13 process.

14 I will introduce my staff with me
15 of the Commerce Committee, to my left Dave
16 Callen, he is our committee executive
17 director. Over at the table is Sandy Altland
18 committee secretary and Destiny Ceiders up
19 front committee public relations person,
20 researcher. I would introduce Ron Luci, Ron
21 is my district office chief of staff. And
22 John Scarpato is with the Dick Hess, minority
23 chairman, who cannot be with us today because
24 his son had surgery. He is in Children's

1 Hospital with his son after a hospital
2 operation post-op visit.

3 Sandy informed me there is
4 additional information at the table. If
5 anyone would need that, you are welcome to get
6 it. If you need something, I will be happy to
7 send it to you. I would like to have the
8 members of the committee starting with Matt
9 introduce themselves and district they are
10 from.

11 REPRESENTATIVE SMITH: Matt Smith,
12 42nd District, Allegheny County.

13 REPRESENTATIVE BENNINGTON: Lisa
14 Bennington, 21st District, Allegheny County.

15 REPRESENTATIVE LONGIETTI: Mark
16 Longietti, 7th District, Mercer County.

17 REPRESENTATIVE KOTIK: Nick Kotik,
18 45th legislative district, Carnegie,
19 Pennsylvania.

20 REPRESENTATIVE GIBBONS: Jaret
21 Gibbons, from the 10th District in Lawrence
22 County.

23 REPRESENTATIVE WHITE: Jesse White,
24 46th District, Washington, Allegheny and

1 Beaver Counties.

2 REPRESENTATIVE WAGNER: Chelsa
3 Wagner, 22nd District Allegheny County.

4 CHAIRMAN DALEY: And my name of
5 course as I said is Pete Daley, I represent
6 the 49th legislative district which is in
7 Washington and Fayette County. I will make a
8 few brief opening remarks and we will go to
9 the Acting Secretary of Banking, Vicki Reider
10 for her testimony.

11 Pennsylvania one of the epi centers
12 of a national crisis we believe in home
13 mortgage foreclosures. Pennsylvania
14 foreclosures are up by a third over 2005 to
15 38,000. New York has 52,000, New Jersey has
16 40,000, and our friends to the west, Ohio, has
17 an astronomical 81,000. Clearly something is
18 wrong, really wrong. Our political system
19 cannot survive on economics of disposable
20 families.

21 This strikes the heart of the
22 American dream of owning your own home the
23 crisis now rolling backwards onto some lenders
24 but potentially to destabilize other markets,

1 new home construction, alternative aid and
2 lending just above sub prime, secondary
3 financial markets for mortgage investment and
4 a reduction or disappearance of credit for sub
5 prime borrowers that will exclude them from
6 home ownership.

7 The coming interest rate
8 adjustments pushing payments upward, the
9 distress of sub prime borrowers is likely to
10 continue for the next several years.

11 Allegations that the escalation in
12 foreclosure results from unethical behavior by
13 lenders in some cases we know this is true.
14 But it may be too that our institutional
15 framework within which our lender's compete is
16 in serious need for retooling. We hope these
17 hearings will throw some light on that issue
18 as well.

19 While industry seems to be self
20 correcting already, now this may not be
21 enough. We are anticipating the possibility
22 of necessarily beneficial, necessarily
23 beneficially to current sub prime borrowers
24 who still may lose their homes, it does not

1 plug the holes in statutes or regulations that
2 permitted some of the lending abuses that
3 clearly took place leading to this juncture.

4 Our interest in developing and
5 exploring remedies are fairness to both
6 lenders and home owners, regulatory schemes
7 that are transparent and enforceable, no more
8 burden on industry than necessary, but no less
9 protection than home buyers deserve.

10 Other states seem to be doing far
11 better than we are. What do they know that we
12 actually don't? Maryland's rate last year
13 dropped by 12 percent to 4,500. West
14 Virginia's rate dropped by 15 percent to 871.
15 Virginia's rate increased by 49 percent last
16 year but it was only to 4,350 foreclosures a
17 state very similar to Pennsylvania.

18 We are not on a witch hunt but
19 neither are we going through the motions of
20 being concerned. We will arrive at a solution
21 that actually works. Today's hearing is the
22 first in a series. We asked witnesses to
23 focus at this hearing to provide a big picture
24 for the committee and for the public of the

1 problems that we are facing. Subsequent
2 hearings in Monroe County, Philadelphia,
3 Pennsylvania, and possibly in the Harrisburg
4 area focus on the details of the
5 administration six bill reform package.
6 Secretary Reider will highlight those bills
7 for us today as part of her comments on the
8 general context and current events.

9 We regret not everyone who wanted
10 to testify today could be included because of
11 time constraints, however, we welcome written
12 testimony as well as any written remarks
13 submitted will be provided to the entire
14 committee.

15 We anticipate that a transcript of
16 this hearing will be available for anyone that
17 wishes to have a copy of the transcript and we
18 will be providing a transcript to all
19 committee members here and those that are not
20 present. At this moment we would like to have
21 Vicki Reider Acting Secretary of Banking make
22 her presentation.

23 SECRETARY REIDER: Thank you,
24 Mr. Chairman. Good morning, Chairman Daley,

1 distinguished members of the committee, I'm
2 Victoria Reider, Acting Secretary of Banking
3 and I thank you for inviting me to discuss
4 mortgage lending reform in Pennsylvania.

5 I'm gratified that you recognize
6 the importance of this issue by holding
7 hearings across the Commonwealth.

8 The six bills we are asking you to
9 consider are the result of a cooperative
10 process that include consumer advocates,
11 financial leaders, policy makers, citizens and
12 other stake holders. Together we believe
13 these bills offer a sensible solution to
14 protect Pennsylvanians from the well
15 documented abuses that are apparent in today's
16 mortgage marketplace.

17 As you consider the bills, I think
18 you will recognize the great care that was
19 taken to respect legitimate mortgage
20 businesses and to preserve the robust flow of
21 capital that helps so many Pennsylvanians
22 achieve their home ownership dreams.

23 Before getting to the specifics of
24 the legislation I would like to spend a moment

1 to provide details how the six bills were
2 developed. In July of 2003, this committee
3 passed House Resolution 364 urging the Banking
4 Department to study and document residential
5 lending practices that may be harmful to
6 consumers and foreclosure trends in
7 Pennsylvania. You also asked us to provide
8 recommendations for your consideration.

9 The Banking Department assembled an
10 advisory committee to help frame the report
11 and its recommendations. Twelve members
12 represented a broad array of stake holders
13 from among others, Community Legal Services
14 and the Pittsburgh Community Reinvestment
15 Group to the Pennsylvania Bankers Association,
16 the Pennsylvania Association of Mortgage
17 Brokers and the Federal Reserve Bank of
18 Philadelphia. I can personally attest to the
19 comprehensive and very spirited nature of the
20 advisory committee's ongoing dialogue.

21 It took us more than a year to
22 complete the study. Not because of the size
23 or the diverse use of the advisory committee,
24 but rather in part because of Pennsylvania's

1 foreclosures are recorded on a
2 county-by-county basis. There is no
3 state-wide repository for such information and
4 the collection of reliable data proved to be a
5 formidable obstacle. I'm sure later this
6 morning Pennsylvania Housing Finance Director,
7 Brian Hudson with us today will discuss with
8 you a proposal that will help PHFA capture
9 data.

10 I would like to underscore it's
11 importance to the committee. If we are to
12 protect Pennsylvania consumers, it is
13 imperative that state government have reliable
14 data readily available to monitor foreclosures
15 across Pennsylvania.

16 Despite the data challenges, in
17 March 2005 the Banking Department published
18 Losing the American Dream, a report on
19 residential mortgage foreclosure and abuse of
20 lending practices in Pennsylvania. The report
21 documented that during the periods studied
22 compared to the other 49 states, Pennsylvania
23 had the ninth highest foreclosure rate in the
24 nation. And, with respect to sub prime loans,

1 the fourth highest foreclosure rate. As you
2 may know, sub prime loans are typically
3 defined as loans with higher interest rates
4 made to people with less than perfect credit.

5 The study further documented that
6 the traditional foreclosure factors, job loss,
7 divorce and illness, for example, failed to
8 account for the disproportionate number of sub
9 prime foreclosures. Contributing factors
10 included such items as making loans without
11 regard to the borrower's ability to repay,
12 loan flipping, excess fees and packaging,
13 aggressive or deceptive marketing, home
14 improvement scams, prepayment penalties and
15 payments set so low that the borrower's
16 payment doesn't even cover the interest due,
17 much less any principal. A home owner just
18 cannot catch up.

19 It is interesting too, that the
20 study found that brokers, lenders, servicers,
21 contractors, builders, developers and
22 appraisers, a whole host of players in the
23 marketplace all may contribute to a
24 transaction that results in foreclosure.

1 Lest we believe that the 2003 data
2 used for the 2005 report was an anomaly, the
3 disturbing discrepancy of foreclosures among
4 prime and sub prime loans continues across the
5 Commonwealth today.

6 As of December of last year, the
7 national foreclosure rate was approximately
8 one percent. Pennsylvania's was 1.5 percent.
9 But the composite of that statistic is
10 interesting because .6 percent of prime loans
11 were foreclosed, well over, and well over five
12 percent of sub prime loans. You can see where
13 the problem is.

14 Frankly, however, statistics don't
15 tell the whole story. For every data point
16 there is a real Pennsylvania family wondering
17 where their children are going to sleep
18 tonight. When we talk about the mortgage
19 industry, it is crucial that we not forget we
20 are talking about people's shelter, people's
21 homes. To simplify, the study's
22 recommendation fell into roughly three
23 categories: Changing the way the Department
24 of Banking conducts business under our

1 existing authority; adding specificity to
2 present statutes, via regulation; and amending
3 current state law.

4 I believe it's important to briefly
5 review the first two categories so as to
6 better understand the context for the third
7 legislative proposal that we put forward.

8 With regard to changing the way the
9 Pennsylvania Department of Banking conducts
10 business, under Governor Rendell's leadership
11 the department has already:

12 Doubled the number of examiners we
13 have on the street who focus on non-depository
14 licensed entities including mortgage bankers
15 and brokers.

16 We have executed interagency
17 information sharing agreements with federal
18 regulators and we have expanded the
19 department's licensing division to ensure that
20 there are background checks on license
21 applicants.

22 Created an investigative unit which
23 has focused more than 80 percent of its
24 efforts the past two years on entities that

1 are involved in mortgage lending.

2 Supported the Pennsylvania Office
3 of Financial Education which you may know was
4 created by Governor executive order, added
5 staff to its consumer hot line, we created a
6 position of consumer group liaison, and we
7 developed materials to educate consumers about
8 the rapidly changing marketplace. I would
9 commend to you the website
10 moneysbestfriend.com which is the Office of
11 Financial Education's website.

12 We secured well over \$1 million in
13 refunds for the state mortgage consumers last
14 year.

15 In December we issued a statement
16 of policy to certain licensees that defined
17 dishonest, fraudulent, unfair, unethical and
18 illegal practices under existing state law,
19 that's the language of the statute, which the
20 department can and will for violations
21 suspend, revoke or refuse to renew a license.

22 We emphasized multi-state
23 coordination including the landmark Ameriquest
24 settlement and we anticipate that consumers

1 will be getting refunds under that settlement
2 this year. We developed non-traditional
3 mortgage guidance. We've worked toward a
4 coordinated nationwide licensing system which
5 we are hopeful will be up and running next
6 year and developed collaborative examiner
7 education and more.

8 We are also working to add
9 specificity to our lobby of regulation. In
10 July of 2006, the Banking Department published
11 for public comment a draft of a proposed
12 regulation to define the proper conduct of
13 business for mortgage bankers, brokers and
14 consumer discount companies that originate
15 mortgages under Pennsylvania law.

16 In very general terms, the proposal
17 requires two items: First, it requires
18 additional but not duplicative and simplified
19 disclosures of important loan terms to
20 consumers so that they are not drowning in a
21 huge packet of material with fine print. Such
22 terms will include whether a loan escrows
23 taxes and insurance, includes a balloon
24 payment or prepayment penalty or employees a

1 variable interest rate or negative
2 amortization.

3 Secondly, it requires state
4 licensed mortgage professionals to reasonably
5 determine a borrower's ability to repay the
6 offered loan given all its terms and
7 conditions, not just the introductory payment
8 which may often be based on a teaser rate.

9 The Banking Department held public
10 hearings on the proposed regulation this past
11 fall. 17 people testified at the hearing
12 including consumer advocates some of whom are
13 here, financial professionals and citizens who
14 found themselves living through the horror of
15 foreclosure.

16 In addition, more than a dozen
17 interest groups provided written comments. We
18 are very grateful to all who shared their
19 expertise with us and provided their
20 thoughtful insight. After studying the
21 testimony and comments we revised the
22 proposal. It is anticipated that the proposed
23 regulation will begin the state's independent
24 regulatory review process in the next four to

1 six weeks.

2 That brings to me to what we are
3 here to talk with you about today, amending
4 the current state laws.

5 That is the heart of our study's
6 recommendations. Despite the great progress
7 that has been made by the Banking Department
8 in the last two years which I just reiterated,
9 there are still vital aspects of the mortgage
10 marketplace that need to be addressed.

11 The chairman mentioned why is our
12 state behind? We believe there are certain
13 issues that can be addressed that we can work
14 with the committee on to make changes. You
15 and your colleagues and the General Assembly
16 have the power to make these changes. The six
17 bills before you include amendments to four
18 banking statutes that need strengthening, the
19 Mortgage Bankers and Brokers and Consumer
20 Equity Protection Act, the Secondary Mortgage
21 Loan Act, the Department of Banking Code, and
22 the Loan Interest and Protection Law.

23 These bills, this package would
24 also amend the Real Estate Appraiser

1 Certification Act which is enforced by the
2 State Board of Real Estate Appraisers in the
3 Department of State and the Homeowners'
4 Emergency Mortgage Assistance Program within
5 the Housing Finance Agency Law.

6 The most important, the key element
7 in these bills is that they would
8 significantly strengthen Pennsylvania's first
9 and second mortgage banker and broker
10 licensing and regulatory statutes. Under
11 current law, as you may know, the department
12 licenses and regulates more than 11,000
13 mortgage brokers, lenders and finance
14 companies.

15 However, we license the mortgage
16 company, not the individuals, not the people
17 that deal directly with consumers. This is a
18 very important distinction.

19 Thirty states already license or
20 oversee individual loan solicitors.
21 Pennsylvania is not among them. Pennsylvania
22 does license the people who sell you
23 securities, we license the people who sell you
24 insurance, we even license the people who cut

1 your hair. Yet we do not license the people
2 who guide what for most of us is the largest
3 financial transaction of our lives.

4 The first two bills work in concert
5 to create a new licensing category for
6 individual mortgage loan originators, the
7 people who work directly with consumers by
8 soliciting, accepting or offering to accept
9 mortgage applications or negotiate loan terms.
10 These people must be licensed, accountable and
11 professional.

12 The state must have the tools to
13 sanction professional misconduct and ensure
14 that abusive brokers and lenders cannot simply
15 move from company to company, from state to
16 state, and continue to victimize our citizens.

17 Under this legislation applicants
18 are required to complete at least 12 hours of
19 instruction and successfully pass tests
20 related to mortgage lending and the federal
21 and state laws that govern the business. This
22 is in addition to the continuing education
23 requirements already required under our First
24 Mortgage Act.

1 The amendments also eliminate
2 exemptions for realtors, builders and
3 insurance companies because it is crucial that
4 every single person who makes a mortgage loan
5 in the Commonwealth play by the same rules.

6 The amendments further establish
7 higher standards for licensure under the acts,
8 make the licensing and regulatory provisions
9 of the two acts uniform which they are not at
10 the present time and increase penalties for
11 violations from a maximum of 2,000 to a
12 maximum of \$10,000 for offense. We want some
13 meat in our statutes.

14 The third bill proposes to amend
15 the confidentiality provisions of the
16 Department of Banking Code to authorize the
17 department to publicly release information
18 about enforcement actions against
19 non-depository licensees, such as mortgage
20 bankers or brokers when an order, fine or
21 adjudication has been issued. We must be able
22 to warn Pennsylvanians about bad actors in the
23 marketplace. But ironically, current law
24 prevents us from doing so.

1 Another bill would amend the Loan
2 Interest and Protection Law called Act 6 of
3 1974 to expand coverages from \$50,000
4 mortgages which very few are these days, they
5 were in 1974, up to \$197,000 mortgages and to
6 allow the cap to be adjusted for inflation
7 annually thereafter. By increasing the
8 monetary cap from the 1974 level, the statute
9 would become relevant in today's marketplace.

10 The bill would also provide the
11 department with enforcement authority in
12 addition to the existing authority of the
13 Attorney General's office and as an aside I
14 should tell you the department has forged a
15 strong relationship with the Attorney General,
16 we meet on a regular basis. We are involved
17 in enforcement actions together.

18 We believe that this change is a
19 simple clarification of the original 1974
20 language which intended the Department of
21 Banking enforce its own law.

22 Violations of the provisions of the
23 statute would subject an offender to fines of
24 \$10,000 per offense levied by the Department

1 of Banking. Also, amendments to the Real
2 Estate Appraiser Certification Act would add
3 the Attorney General and the Secretary of
4 Banking to the State Board of Certified Real
5 Estate Appraisers and increase the maximum
6 civil penalty the board may assess on an
7 appraiser involved in improper activity from
8 \$1,000 to \$10,000 for each violation.

9 The Department's study when you get
10 a chance to review it found that improper
11 inflating of home values by appraisers was a
12 consistent abuse, and frankly a contributing
13 factor to mortgage foreclosures.

14 We have worked with Secretary of
15 the Commonwealth Pedro Cortes on these
16 amendments.

17 And finally, thank you
18 Mr. Chairman. We propose the amend the
19 Homeowner Mortgage Assistance Program of the
20 Housing Finance Agency Law to require mortgage
21 lenders to send copies of Act 91 foreclosure
22 notices to the Pennsylvania Housing Financing
23 Agency so that mortgage foreclosures can be
24 monitored on a state-wide basis and

1 foreclosure hot spots such as we experienced
2 in Monroe County can receive PHFA and
3 Department of Banking attention. Act 91
4 foreclosure notices may be provided either by
5 mail, fax or electronically.

6 And you will see that banks are
7 already doing that now, it is a very simple
8 act for them to just electronically provide
9 the information.

10 We also suggest that the interest
11 rate on HEMAP loans be reduced from the
12 current nine percent in the original 1983
13 statute to the Act 6 market rate which is
14 published monthly and is based on a yield on
15 long-term government bonds.

16 And finally, the last piece of the
17 HEMAP legislation would extend PHFA temporary
18 stay of foreclosure proceedings under the
19 HEMAP program to include the period of
20 administrative appeal. So while a case is
21 pending before PHFA, the homeowner would be
22 stayed from facing any further foreclosure
23 proceedings until decision is made.

24 We've worked with Brian Hudson on

1 these amendments, and I believe he will
2 discuss them in greater detail this morning.
3 I'm very grateful for your time and frankly
4 for your interest in this issue.

5 As you know doubt see in the news
6 every day, there is a mortgage crisis looming
7 in America. The Banking Department has moved
8 forward dramatically but we would ask for your
9 help. I appeal to you to use the legislative
10 powers to make these crucial changes to
11 protect Pennsylvania consumers. We cannot
12 move swiftly enough. The time is now. As the
13 Chairman indicated with respect to these
14 adjustable rate mortgages, there are many more
15 that are due to reset in the coming year. We
16 can't leave people in dire straights.

17 I look forward to working with you,
18 the members of the committee, to refine this
19 package and I would be very pleased to answer
20 any questions you may have.

21 CHAIRMAN DALEY: Thank you, Madam
22 Secretary. We will start with Matt.

23 REPRESENTATIVE SMITH: Thank you
24 Mr. Chairman. Thank you for your testimony

1 today, Madam Secretary. Can you go into a
2 little bit of detail as to the Department's
3 efforts on enforcement and describe the number
4 of enforcement efforts underway now and
5 provide a little detail on that issue?

6 MS. REIDER: I wish that I could
7 provide more detail to you, and that is why I
8 am asking for the ability to describe more
9 closely the enforcement actions. When we have
10 an investigation pending or a matter that is
11 under enforcement, we are precluded from
12 talking about it even if we believe it is a
13 very serious situation and we wish to warn
14 consumers.

15 As I indicated in my testimony, we
16 were able to resolve several mortgage
17 foreclosure matters with consumers. We were
18 able to obtain a million dollars in fines for
19 Pennsylvania consumers. But when there is a
20 matter currently pending, there is a section
21 of our statute called 302 which precludes us
22 from talking about the specific investigation
23 or the enforcement action and to tell you the
24 truth, it is frankly a great frustration for

1 our agency and particularly for our press
2 secretary who finds herself called by the
3 media. Why aren't you doing something about
4 this matter. Indeed we may be doing something
5 internally yet we are precluded from
6 discussing it.

7 REPRESENTATIVE SMITH: Thank you.

8 MS. REIDER: Thank you.

9 REPRESENTATIVE SMITH: One other
10 question. You mentioned the need to increase
11 the coverage under the Loan Interest and
12 Protection Law from \$50,000 to I believe
13 \$197,000. Can you just go into a little bit
14 of detail why that is necessary, how many
15 additional homeowners would be covered,
16 potential homeowners would be covered, how
17 that would work?

18 MS. REIDER: Absolutely. Thank you
19 very much. I appreciate that question because
20 the 197 is just the inflation adjusted rate
21 from the 1974 statute. If our statute had
22 only kept pace with inflation, we would be at
23 the 197. Now that would not cover granted a
24 lot of mortgages being made today and home

1 prices just keep skyrocketing, so certainly it
2 could go higher. But we propose merely as a
3 fix to the current statute which really should
4 have kept pace with inflation.

5 We are hopeful the committee will
6 consider that at least to make Act 6 a valid
7 statute under present terms.

8 REPRESENTATIVE SMITH: Thank you,
9 Mr. Chairman.

10 CHAIRMAN DALEY: Lisa.

11 REPRESENTATIVE BENNINGTON: Thank
12 you. As a family law attorney and a
13 legislator, I often represent dependent
14 spouses in family law cases. In my practice
15 what I have seen is directly the improper
16 inflation of appraisals which often times
17 allow the dependent spouse to remain in the
18 marital resident, for instance, if she makes
19 \$30,000 and he makes 100, but she has the
20 three children.

21 How are you capping the improper
22 inflation of appraisals, because while I
23 recognize there is a problem with people
24 perhaps losing their mortgage and foreclose,

1 being foreclosed upon, I think a slight degree
2 of that allows people who wouldn't otherwise
3 be able to stay in the house to obtain those
4 mortgages.

5 MS. REIDER: Absolutely. We want
6 to keep consumers in their homes. What we
7 would like to do is just to ensure that
8 mortgages aren't inflated improperly by the
9 broker and the consumer understands the terms
10 of the mortgage that they are going in to
11 face. There is no desire to in a sense cap or
12 determine the proper market rate. That is for
13 the appraiser and the broker.

14 But we discovered so many serious
15 abuses where a broker would come to an
16 appraiser and suggest that a home should be
17 priced at X amount, the consumer gets into the
18 house and realizes there is no way they can
19 continue to make payments on that home.

20 And we are also advocating that
21 consumers work with their lenders. Lenders
22 are not interested in foreclosing because it
23 is a very expensive process. If there is a
24 way that can develop some type of work out

1 plan with the lender, they will work to ensure
2 that the consumer stays in their home, in
3 fact, it is a discussion that is going on now
4 with the FDIC because some of these loans deal
5 with investments that Wall Street is making in
6 mortgages and that they can actually save
7 money as opposed to foreclosing by suggesting
8 that brokers go back and work out terms with
9 the lenders, with the consumers.

10 REPRESENTATIVE BENNINGTON: That
11 actually brought up a follow-up question, have
12 you done any research on tendering deeds in
13 lieu of foreclosure in terms of if people
14 aren't foreclosing, how many are tendering
15 deeds and still owing.

16 MS. REIDER: We don't have data on
17 that. I I would welcome any thoughts you have
18 in that regard and would be happy to look at
19 it.

20 REPRESENTATIVE BENNINGTON: Thank
21 you.

22 REPRESENTATIVE LONGENETTI: Thank
23 you, Mr. Chairman. I wondered if you could
24 give us a little bit of detail on the

1 education program and how that's reaching out
2 to consumers, especially in light of the fact
3 that there are a number of consumers who don't
4 have internet access.

5 MS. REIDER: Yes, absolutely. In
6 fact, if you do not have internet access, we
7 have the ability to go out into the community.
8 We have a three-pronged approach to financial
9 education through the Office of Financial
10 Education that I mentioned.

11 One deals with education in the
12 schools. And this is not at a particular
13 grade level, everything from early elementary
14 school through high school through college. I
15 have two prospective college students on the
16 way and I don't want them going into college
17 and getting hit with new credit card
18 solicitations and that type of thing which
19 they may be vulnerable to. What we are doing
20 is trying to incorporate into the education
21 curriculum financial education, and with the
22 new Child Left Behind standards we can't
23 actually have a separate course on financial
24 education so we have been having a teacher's

1 college summer to help teachers teach
2 financial education as a part of mathematics,
3 reading, the different curriculum that's
4 already mandated and required. And the
5 teachers' college has been oversubscribed.
6 Teachers are very interested in it in fact,
7 some never having financial education
8 themselves are interested in it for them. We
9 also have a Department of Banking staffer
10 embedded within the Department of Education
11 who actually works with them to help make this
12 a part of their curriculum.

13 Secondarily, we also provide
14 financial education in communities. We are
15 willing to go out, we have speakers available,
16 and we also worked with the Attorney General's
17 office which has an elder protection unit that
18 does financial education for seniors. And we
19 go out with them or separately to provide
20 different programs if there is interest in a
21 particular community.

22 And finally, we have a workplace
23 based financial education program. We did a
24 pilot project actually in the Commonwealth

1 with the Governor's office and several of the
2 executive agencies where we went in and we
3 were training our own state employees on
4 financial education and you would be amazed at
5 the level of interest.

6 It included such things as
7 long-term nursing home care, choosing a
8 particular type of investment product, what
9 you should be looking for. Of course, home
10 ownership issues, that type of thing, and
11 credit card solicitations. Just how to be a
12 savvy consumer of the financial products that
13 are out there.

14 REPRESENTATIVE LONGENETTI: Just a
15 comment I think those programs also offer a
16 wonderful opportunity to partner up with
17 non-profits. I know for example, the
18 financial literacy in the schools issue,
19 something the United Way, I know in my area is
20 interested in. I want to say the United Way
21 of York County is already involved in. A
22 couple days ago I went to a program you are
23 probably aware of the CPA association put on
24 in regard to financial literacy to the broader

1 community, I believe they are investing \$100
2 million nationwide in that program. So it is
3 an opportunity for government to partner up
4 with some non-profits as well.

5 MS. REIDER: They have an excellent
6 program we are aware of that. In addition, we
7 have done it with some of the faith based
8 organizations. There is an excellent
9 African-American church in the Philadelphia
10 area we are partnering with, several different
11 non-profit programs and we would welcome
12 further involvement in that regard if there
13 are specific outfits that you would recommend
14 that we work with. So thank you for that.

15 CHAIRMAN DALEY: Nick.

16 REPRESENTATIVE KOTIK: Thank you,
17 Mr. Chairman. Welcome Madam Secretary to
18 Carnegie, Pennsylvania, one of the really
19 great communities here in Allegheny County.
20 My question kind of revolves around the
21 efforts we made in Carnegie to try to bring
22 this community back. Two years ago we were
23 hit by a very substantial flooding problem,
24 and that caused much destruction in the

1 community as far as businesses, houses,
2 everything. One of the things we have to
3 emphasize in any legislation we consider is an
4 effort to make the process more efficient and
5 ensure the integrity of the process.

6 Because the only way a lot of these
7 communities are going to come back and we
8 rebuild these communities is to make sure the
9 housing efforts are not stymied by
10 foreclosures. So I would like you to comment
11 on that effort and how we can improve the
12 process where in communities that are really
13 in need of help can make housing more
14 affordable and ensure the integrity of the
15 process.

16 MS. REIDER: Absolutely. I have
17 the privilege of sitting as chairman of PHFA's
18 board an organization I believe throughout the
19 Commonwealth is doing a lot in terms of
20 providing money, housing stock efforts, to
21 revitalize communities that are distressed.
22 And I know that Brian Hudson can speak more
23 fully to those issues, but we are most
24 supportive of that. And also not putting a

1 lot of bureaucratic or administrative hurdles
2 in place that make it difficult to get money
3 to the communities in Pennsylvania where it
4 needs to be.

5 So, a piece of that question I
6 would commend, if I may, to Mr. Hudson. But I
7 also believe that some of what we are doing
8 will actually help bolster communities in
9 terms of preventing foreclosure at the outset,
10 particularly our regulation with respect to
11 ability to repay. If we know a consumer can
12 get into a mortgage and has the ability over a
13 period of time even with an adjustable rate
14 mortgage to continue to stay in their house or
15 to work with their lender to stay in their
16 house, it will prevent those horrible
17 foreclosure stories that we have been hearing.

18 REPRESENTATIVE KOTIK: Thank you.

19 CHAIRMAN DALEY: Jaret.

20 REPRESENTATIVE GIBBONS: Thank you.

21 Now, one of the things you talked about I saw
22 here was the idea of licensing, but you are
23 talking about the brokers and solicitors, I
24 just want to get a handle on it, exactly how

1 many brokers, licensers, solicitors, bankers
2 do we have roughly operating in the State of
3 Pennsylvania now?

4 MS. REIDER: At the present time we
5 have 11,000 mortgage licensees. As I
6 mentioned, those are the companies. We are
7 proposing to license the individuals that deal
8 directly with the consumer so that won't
9 include their clerical staff or administrative
10 staff but for any employee that is actually
11 soliciting and working one-on-one with a
12 consumer, those individuals would be licensed.

13 We don't have a current number
14 because frankly we don't have the authority to
15 license those entities. But we believe like
16 the other 30 states that license them that
17 Pennsylvania certainly should be doing that.

18 REPRESENTATIVE GIBBONS: So we are
19 looking at 11,000 agencies, so the number is
20 going to be well beyond that number at least?

21 MS. REIDER: Yes, yes.

22 REPRESENTATIVE GIBBONS: Out of the
23 11,000 agencies, how many are subsidiaries of
24 the state and federal banks, roughly?

1 MS. REIDER: We do not license
2 operating subsidiaries. They are exempt under
3 our preemption standard. So, we do not have
4 those types of numbers since they are, you
5 know, do not need to apply for licensing.

6 REPRESENTATIVE GIBBONS: So the
7 bank related agencies won't be covered in the
8 bills you are talking about?

9 MS. REIDER: No, unless they own
10 perhaps a consumer discount company, there are
11 very few that do that we have been able to
12 discern. They will be exempt from licensing.

13 REPRESENTATIVE GIBBONS: Thank you.

14 CHAIRMAN DALEY: Jesse.

15 REPRESENTATIVE WHITE: Thank you,
16 Mr. Chairman. Thank you for being here Madam
17 Secretary. My question had to deal with the
18 you mentioned talking about finding hot spots
19 for sub prime mortgages. Do you know if sub
20 prime foreclosures, what the reason is for why
21 they cluster in specific spots in the
22 Commonwealth?

23 MS. REIDER: I think because sub
24 prime loans are typically available for

1 consumers that may be more distressed, that
2 may not have sufficient collateral, that may
3 have a poor credit history, that there may be
4 certain areas of the Commonwealth where that
5 is more prevalent. And so unfortunately some
6 of these more predatory types of lenders will
7 target particular areas, at least that is what
8 we discovered in Monroe County, and I think
9 that is the case. That there has been
10 elements of that concern in the Pittsburgh
11 area. So we are looking at those issues, and
12 we would like to be able to have the authority
13 to prevent it.

14 REPRESENTATIVE WHITE: Are you
15 looking more at that being in a, just from
16 what you have seen so far, is it more in an
17 urban setting, or is it more in rural setting,
18 suburbs, is there a pattern you see
19 developing?

20 MS. REIDER: Interestingly, it is
21 not urban versus suburban versus rural. It
22 has been rather mixed across the Commonwealth.
23 Now our data from the study is 2005 data so
24 there may be changes that are more current,

1 and it has been difficult as I mentioned to
2 get that information since it is on a county
3 by county basis and there is no state
4 repository. Nonetheless, we believe this is a
5 Commonwealth wide program. I think just based
6 on population you may see it more in urban
7 areas such as Philadelphia, but it is spread
8 out across, there is no particular dynamic in
9 one geographic area compared with another.

10 REPRESENTATIVE WHITE: Thank you
11 very much.

12 MS. REIDER: Thank you.

13 CHAIRMAN DALEY: Chelsa.

14 REPRESENTATIVE WAGNER: Thank you,
15 Secretary Reider. You mentioned the
16 staggering rates for foreclosures on sub prime
17 mortgages in Pennsylvania being fourth in the
18 country. Is there some way as a Legislature
19 that we can look at capping the rates on sub
20 prime mortgages?

21 MS. REIDER: That is not something
22 we explored although we would be happy to talk
23 more with you. What we don't want to do is
24 prevent sub prime lending per se because there

1 are, there has been a push in this country as
2 you may know for home ownership. And years
3 ago those individuals that could get a home
4 typically had a large down payment and had
5 many financial resources. When I got my
6 mortgage, I put down a big down payment.

7 And we don't want to reach the
8 point where credit is cut off for certain
9 consumers that may be in a more middle ground.
10 So I think there are concerns with some type
11 of, you know, more arbitrary cap, how do you
12 get there, how do you still allow consumers
13 that you know may be in the middle row to be
14 able to have sufficient wherewithal to get a
15 mortgage.

16 So, that's something actually the
17 federal regulators are looking at as well, how
18 can you ensure that credit is available to the
19 market and yet prevent predatory lending on
20 the other side. If you have thoughts in that
21 regard, we welcome them.

22 CHAIRMAN DALEY: One real quick
23 question. Chelsa, are you finished? For
24 those individuals caught in the sub prime loan

1 the ones usually they can't afford it, they
2 have a little higher unfortunate --

3 MS. REIDER: Yes.

4 CHAIRMAN DALEY: -- risk level in
5 terms of the credit. What solution do we have
6 for those individuals?

7 MS. REIDER: Actually, there are
8 many, and the very first one, and it seems
9 simplistic but people are embarrassed and I
10 certainly can understand it is to go to your
11 lender. As mentioned, it is very expensive to
12 foreclose on a property. So a lender would
13 prefer to work out an arrangement with them.
14 In the context of doing that, though, the
15 Department of Banking can help consumers work
16 with their lenders and there is a little bit
17 of extra muscle when we are involved the
18 process. So we would recommend a consumers
19 call us 1800pabanks, and we would be happy to
20 become involved in the process that they are
21 concerned about foreclosure. In addition,
22 there are numerous resources available to
23 consumers. Across the Commonwealth there are
24 housing counselors that are accredited through

1 PHFA. And those housing counselors can
2 actually sit down and look at specific terms
3 and see what the problem may be for this
4 consumer, is it a temporary thing, or is it
5 something more long-term. And, if it is
6 temporary, if perhaps it is a job loss or
7 something that there is, can be remedied,
8 there is also state money available through
9 what is called the HEMAP program through PHFA
10 to offer a bridge kind of financing for an
11 individual who may be in temporary straights
12 and is looking just for some interim help, and
13 so during that period of time they can get
14 that additional financing through HEMAP.

15 CHAIRMAN DALEY: Just simply, has
16 the Department, has the Department done any
17 PSAs? I have not seen them in Western
18 Pennsylvania that would explain to consumers
19 that are trapped and they have nowhere to go
20 these are various options available, consumer
21 advice, consumer information for them. Has
22 the Department undertaken the PSAs?

23 MS. REIDER: I don't know that we
24 have undertaken any through media outlets.

1 What we have done is we put together
2 brochures, have gone out through financial
3 education arm and tried to work with community
4 groups. We have tried to target across the
5 state. We have a lot of information available
6 to consumers. But we would love to do more in
7 that vein and would look forward to that if
8 the committee feels it is advisable.

9 CHAIRMAN DALEY: Thank you, Madam
10 Secretary, there being no other questions,
11 thank you for your testimony this morning. We
12 as a group will probably be providing some
13 information to you and offer some suggestions
14 and maybe some legislative remedies as this
15 process continues.

16 I thank you for taking the time
17 this morning.

18 MS. REIDER: I would welcome your
19 input, Mr. Chairman, and I'm very grateful you
20 have chosen to take this issue on, thank you.

21 CHAIRMAN DALEY: Thank you, Madam
22 Secretary. Our next individuals we have two,
23 we are not set up for a panel, so we will just
24 do one at a time. We have Mary Ellen Hayden,

1 and the other is Paul Lodico of the Mon Valley
2 Unemployed Committee, Mary Ellen Hayden with
3 ACORN.

4 MS. HAYDEN: I thank you for
5 inviting us here. The first thing I would
6 like to do, I made my statements a little
7 shorter so I could have a couple of people who
8 actually have had this happen to them to speak
9 to you for one moment.

10 CHAIRMAN DALEY: Great.

11 MS. HAYDEN: This is Cathy Holler,
12 she is the long and this is Neddie Pelton the
13 short of it.

14 CHAIRMAN DALEY: Cathy, your last
15 name is.

16 MS. HOLLER: Holler, H-O-L-L-E-R.
17 Thank you for having us here today. And this
18 is an opportunity that I have knocked for over
19 four years. I have been trying to save my
20 home, actually, it is my grandmother's house
21 from a bad mortgage.

22 The original lender ducked into
23 bankruptcy in New York and hides the fact that
24 they still own my loan. At that time when

1 they ducked into this bankruptcy, I was in a
2 rewrite for seven percent when they filed
3 their Chapter 11 in May of 2000. No one has
4 kept their word.

5 This was a push marketing product,
6 predatory and the amount that I borrowed was
7 \$46,200. In less than five years I paid back
8 over \$39,000 and it just never was enough.

9 The family house is 100 years old
10 and has always been cared for with hard work
11 and pride and I can tell you that this
12 situation really makes that hard. My loan
13 owner is ContiMortgage, its parent company was
14 Continental Grain and they changed their name
15 to Conti Group, Inc., and they now, they were
16 a foreign corporation at the time, they now
17 pride their headquarters in the middle of Park
18 Avenue in New York.

19 CHAIRMAN DALEY: You said foreign,
20 you mean foreign to this country or foreign to
21 this state?

22 MS. HOLLER: I believe foreign to
23 this country.

24 CHAIRMAN DALEY: Okay.

1 MS. HOLLER: Fairbanks Capital now
2 Select Portfolio Servicing that was looked at
3 by the Federal Trade Commission ended up as
4 the servicer of my loan. And I think what is
5 important here is I can't have a face-to-face
6 meeting with my lender, they won't admit who
7 they are. And their bankruptcy then became my
8 bankruptcy. So, this whole issue has a big
9 public policy ramification.

10 And what we have to look at here is
11 it is not the broker that is coming after my
12 home, it is not the lender that is coming
13 after my home, it is a servicer and I'm told
14 by the Department of Banking that they have no
15 regulation over servicers in the State of
16 Pennsylvania. And a lot of what happened to
17 me was misapplication of my money once I sent
18 my payment in. And these folks are great for
19 creating expenses and fees and fleece within
20 the four corners of your mortgage and taking
21 your mortgage payment and applying it to that,
22 or what they do is they advance their money
23 supposedly to pay your fees and fleece and
24 then they charge interest on it and before you

1 know it, you are making your payments and your
2 payments aren't going toward principal and
3 interest.

4 You are behind and then they pull
5 you into foreclosure. And then that's when
6 the ball really starts rolling, and I think
7 another area that really needs looked at in
8 all of this is the way that the records are
9 maintained because where do I need to go to
10 resolve my problem now is to my county
11 courthouse.

12 Mortgages get filed that are
13 rescinded, mortgages get filed that are
14 different than what you agreed to at your
15 closing. They just come in and they get
16 filed. And if you have ever tried to undo any
17 of that record, you will find that it is very,
18 very hard. In any event, that's another area
19 that I think that is, needs to be looked at is
20 in the court and what goes on there and also a
21 regulation of the servicer. And I would
22 really appreciate if I could get some
23 directive and guidance because I'm facing
24 foreclosure here probably in May or June.

1 Thank you.

2 CHAIRMAN DALEY: Cathy, you want us
3 to see if we can intercede to help you, is
4 that what you are saying?

5 MS. HOLLER: Yes.

6 CHAIRMAN DALEY: What we will do
7 is, we will see what we can do and talk to the
8 Department of Banking and see if there are
9 remedies that may be available for you. The
10 next individual is Neddie Pelton?

11 MS. PELTON: Yes.

12 CHAIRMAN DALEY: I can see you.

13 MS. PELTON: Can you see me now?

14 CHAIRMAN DALEY: I can see you.

15 Neddie Pelton, P-E-L-T-O-N?

16 MS. PELTON: My problem was I took
17 a loan out, I thought it was a loan and stuff
18 and I started paying. They sent their
19 contractors to do my house do the work that I
20 want to do on the home. My house is paid for.
21 So I didn't need to take other kind of loan
22 out on my house. Well in the process of this
23 stuff by me paying on the loan, they took and
24 put a balloon payment on the loan and stuff

1 which the loan was \$2,000, I mean \$22,000 for
2 a kitchen and a bathroom. And when I started
3 paying on the loan and stuff, then they sent
4 me a notice telling me that in the time I pay
5 that loan off, I will have to take and pay
6 them \$19,000, that is the balloon payment, was
7 in little teeny tiny writing really don't see
8 it. You really don't understand what they
9 said to you and everything. So then they try
10 to take my house. So, I kept going here and
11 there, talking to everybody think of talking
12 to so tell me what to do so they wouldn't take
13 my house.

14 And in the meantime, I met Ms. Mary
15 Ellen Hayden from ACORN. And she helped me,
16 and then we went and got a lawyer and had the
17 lawyer take and look into it and stuff. And
18 he said that they did, they took and did a
19 wrong clause, I forget what the statement was
20 they said on the statement, but they stopped
21 them from foreclosing on my house. But my
22 house is still tore up. I mean I still don't
23 have no kitchen, I got a half of bathroom, and
24 I'm having a hard time trying to get someone

1 else to take, you know, to sponsor me to take
2 and get my house worked on. Now I'm have
3 another problem my roof is starting to leak
4 and the other little problems here. The
5 drains, you know, that is going bad on me and
6 stuff that is double on me and I'm not working
7 now I'm on disability.

8 So now I'm having a really hard
9 time I just want to know where can I go to get
10 some kind of help to get the work done before
11 my house really, really get in really bad
12 shape. I mean it is bad, you know, that you
13 get a house and you think that's what is going
14 to pass on to your kids and all this other
15 stuff but then you go through these problems
16 where people try to take all your money and
17 stuff.

18 They have 19 percent, whatever say,
19 balloon on me. So I mean I'm scared they
20 might still try to take my house but I'm
21 trying to do what I can, but so I will just
22 ask this committee maybe you know if you have
23 another way to tell me what to do who I can go
24 to, I would appreciate it.

1 CHAIRMAN DALEY: Neddie, can you
2 privately give us your phone number so we can
3 talk to you? I don't want to say it publicly.
4 I think you and Cathy represent literally
5 thousands of people in Western Pennsylvania
6 getting shafted by these unscrupulous people
7 that come in and do these types of things.
8 Several of us up here are attorneys, I'm sure
9 we have heard of more than one time or another
10 someone has done this to one of our clients.
11 Thank you for your testimony. Are you going
12 to be next then.

13 MS. HAYDEN: I will be fast. The
14 one thing I did want to say was Ms. Neddie's
15 loan had a 19 percent interest rate on it and
16 her house is worth about \$15,000 and is in
17 Beltzhoover. Okay, so, according to Realty
18 Trac over 38,000 foreclosures in Pennsylvania
19 in 2006. There are plenty of statistics about
20 the lending industry, and we all remember that
21 state-wide report on foreclosure showed that
22 significant numbers of these foreclosures were
23 generated by the sub prime lending industry.

24 In 2008, sorry, 2007, sub prime

1 lending has created a second and more
2 devastating round of foreclosures. Because
3 adjustable rate mortgages are coming due,
4 people are beginning to see payments go up
5 often above what they can afford.

6 The numbers of those receiving
7 adjustable rate mortgages by race and income
8 is also cause for serious alarm. In the
9 attached study on high cost mortgages and
10 refinance loans, we see that African-Americans
11 and Latinos were twice as likely to receive
12 these loans, and that about 80 percent of
13 families with high cost loans were to low and
14 moderate income people.

15 And while we hold hearings and
16 discuss all the options, people are losing
17 homes at remarkable rates each month. ACORN
18 has been calling for legislation to stop
19 predatory lending for the last six years. Six
20 years ago Philadelphia ACORN worked with their
21 city council to get a law passed to ban
22 predatory lending in their city. The lending
23 industry began a state-wide lobby blitz and in
24 a short-term our current mortgage law was

1 enacted. ACORN members call it the predatory
2 lender protection act. Because it codified
3 the existing HOEPA regulations and had a
4 preemption clause at the end.

5 At that point it became open season
6 on consumers for the sub prime lending
7 industry. They sent officials looking around
8 and passing flyers out in poor neighborhoods
9 announcing special grants to repair homes and
10 furnaces. Fly by night roofers became loan
11 brokers for companies selling loans with
12 outrageous interest rates. Ever see a home
13 loan with a 21 percent interest rate? Our
14 members have them.

15 ACORN convened a group of lawyers,
16 housing counselors, community groups called
17 the Pennsylvania Coalition for Responsible
18 Lending. For two years we met monthly and we
19 discussed what we were seeing in the bad loans
20 people were bringing to us. And then we
21 created a set of recommendations for
22 legislation that would solve the problems we
23 were seeing.

24 This legislation, after languishing

1 in committee, although we brought hundreds of
2 people to Harrisburg to tell their stories
3 every quarter of the year died. It has been
4 reintroduced this session by Curtis Thomas.
5 The six bills you have here are what the
6 Industry Banking Secretary agreed upon out of
7 all the great protections that were in our
8 recommendations. We think they are a good
9 start. But that alone will not stave off
10 impending crisis.

11 What we are calling for our elected
12 officials state-wide to do is declare
13 moratorium on foreclosures until they create a
14 rescue fund for our citizens who are
15 foreclosure victims, and pass strong
16 legislation that actually prevents future
17 abuses of our citizenry.

18 The public hearings are about
19 Banking Secretary's package of bills, which
20 are not as strong legislation but are
21 something. And it does something for the
22 present victims but, I mean it does nothing
23 for the present victims but something for the
24 future.

1 The best legislation is the
2 legislation recently passed in Minnesota. We
3 have a copy of it here in our, what we have
4 submitted so that we can work with you in
5 getting it introduced if you are interested.

6 What we would like to add to this
7 legislation, if it were possible, is that
8 there should be a cap of five percent of the
9 loan for total points and fees including yield
10 spread premium so that we can prevent equity
11 stripping. An ability to pay should be
12 written legislated written right into a
13 package. That steering would be prohibited.
14 That future predatory practices we be thinking
15 about those and adjusting our legislation as
16 they come up.

17 And that taxes and insurance be
18 escrowed and that people would have a private
19 writ of action so if something happened like
20 what happened to Cathy Holler that she would
21 actually be able to sue her lending company.
22 And not have to deal with arbitration clauses.
23 So that's all I have to say.

24 I have got a great packet for you

1 sat up all night making it. I hope know if
2 everybody gets one.

3 CHAIRMAN DALEY: We are going to go
4 to Paul next. Let me say to you, we are
5 talking about your suggestion and
6 Representative Thomas does have one of the
7 bills of the six bill package. We are working
8 with him on his legislation as well as sort of
9 amalgamating it into our legislation so that
10 discussion is ongoing for your information.
11 Paul.

12 MS. HAYDEN: He just gave you on
13 the Minnesota legislation sort of for
14 Pennsylvania, if that were included with the
15 Banking Secretary six bills, be a seventh
16 bill, it would fix everything.

17 CHAIRMAN DALEY: We will look at
18 that. Paul. Good to see you Paul.

19 MR. LODICO: Good morning. I'm
20 Paul Lodico with the Mon Valley Unemployed
21 Committee. I first became involved with the
22 problems of foreclosure about 25 years ago
23 when Representative Daley's hair was black and
24 I had some.

1 CHAIRMAN DALEY: We go back, Paul.

2 MR. LODICO: We go back. And we
3 here today are asked to talk about the big
4 picture. And I will try to do that from a
5 slightly historical point of view.

6 There have been several mentions of
7 HEMAP, the Homeowner Emergency Mortgage
8 Assistance Program. We will hear from its
9 director later on today. It has been a
10 marvelous program that has helped tens of
11 thousands of Pennsylvanians save their homes.
12 But you must understand that program didn't
13 drop from the sky. That program didn't come
14 as a result simply of a study somewhere or
15 some committee hearings, it came also from the
16 actions of the men and women who were affected
17 by that problem.

18 At that time there were far fewer
19 foreclosures than there are today but it was
20 enough to concern the men and women who were
21 losing their jobs through no fault of their
22 own in the mills and other workplaces in this
23 area and throughout the state. And we did
24 studies. We went to and referred people to

1 counselors but when your pay has been cut off
2 and you are trying to live on unemployment, it
3 is not a question of budgeting, it is a
4 question of lack of money and you need some
5 help.

6 And even within our group we had a
7 problem. We had a debate. There were many of
8 our members who said if you can't make your
9 payment, it is a contract, tough, you lose
10 your house. And then we had the other side
11 saying yeah, but your house is part of the
12 American dream and we get government to help
13 us sometimes when things seem to break down in
14 the broader society.

15 And that this was one of the
16 occasions in which people needed temporarily
17 to be assisted in order to save their homes.
18 And the HEMAP program was set up as a loan
19 program to help folks who were losing their
20 homes through no fault of their own.

21 Now that program I must say 25
22 years ago got a big impetus when we started
23 picketing the sheriff sales here in Allegheny
24 County and went month after month to the

1 sheriff's sale, month and month there were TV
2 cameras down there looking at the vultures who
3 were there buying people's homes and we said
4 to the sheriff, what you are doing the legal,
5 you can't stop it completely, you don't have
6 the authority, but we ask for a moratorium
7 until the Legislature could come up with
8 legislation that would help workers save their
9 homes.

10 And eventually Sheriff Coon did
11 declare a moratorium, Judge Papadakos backed
12 him up because we knew he didn't have the
13 power and he knew it alone, and with all that
14 attention, the creativity and energy of the
15 Legislature got prodded a little bit and after
16 a number of months the HEMAP program was
17 passed into law and some months after that it
18 was funded.

19 We are in a much different
20 situation now. The HEMAP program was not
21 designed for predatory lending and in general,
22 and sub prime loans and the kinds of problems
23 that were heard here today, it was designed
24 for a different category of folks and even

1 there of those who applied it is only funded
2 at a level that it can help about 30 percent.

3 We need new initiatives, new
4 creativity. The HEMAP program is one of a
5 kind in the country just as our CHIP program
6 paid the way for health insurance for kids.
7 We need you to go back and begin by passing
8 this package of bills quickly. But understand
9 that is only one step on a much longer journey
10 that is all too slow.

11 As you heard, and she reminded you
12 passed a resolution in 2003, what year is it
13 now? 2007. From resolution to some very,
14 very modest bills. So, we would urge you to
15 very quickly pass that bill, that set of
16 bills, but get on then to the broader and
17 bigger problem. Don't try to solve everything
18 all at once or we will be stuck back there for
19 a much longer period of time.

20 Several years ago that HEMAP bill
21 was actually almost a stand alone bill. And
22 then it got put in together. Had it been a
23 stand alone bill, it probably would have been
24 passed long ago and we would be seeing the

1 benefits of that legislation already.

2 We have a different time now as was
3 said, we remember the time when your lender
4 was up the hill, when the lender knew you or
5 knew your family. Where the community could
6 go to the lender and talk and explain the
7 situation. Now it is hard, not just for a
8 person, for a counseling agency to find the
9 appropriate person to get on the other end of
10 the line.

11 I know that because we continue to
12 be a counseling agency for the Homeowners
13 Emergency Mortgage Assistance Program. I see
14 folks come in. I go over with them their
15 problems. And I have been part and parcel of
16 attempts to get the lenders on the phone.
17 There may be some who are willing to make
18 deals, but I will tell you it is very, very
19 few for the folks that come into our office
20 that we can sit down and have a negotiation
21 with.

22 You never see them and they rarely
23 want to talk to you on the phone. The round
24 ball is in your court. We ask for some quick

1 action, just don't say the game is over yet,
2 it is going to go on because this problem is
3 getting bigger and deeper and it is your
4 challenge to find an effective way to address
5 it, thank you.

6 CHAIRMAN DALEY: Are there any
7 brief questions from any members of the panel?
8 Hearing none, Paul, and everyone from ACORN.
9 Let me just tell you, you know Paul where I
10 come from how we fought together in the Mon
11 Valley on many issues over the last 25 years
12 including liens on property with welfare
13 liens, how we overcame that. You can rest
14 assure as chairman of the community, majority
15 chairman of the committee we will look at your
16 recommendations very seriously including the
17 concept of a moratorium.

18 We will talk to you about that and
19 see if that may be possible, if possible at
20 all. But rest assured that we will look at
21 this issue.

22 REPRESENTATIVE SMITH: Just a brief
23 comment, Mr. Chairman, I notice Ms. Pelton's
24 testimony she referenced receiving help from

1 Mr. Dan Haller of Neighborhood Legal Services
2 Association. I would like to make a quick
3 comment as a former board member of the
4 Neighborhood Legal Services Association, I
5 would implore all members of the committee to
6 make available to their constituents at least
7 some information on the services that
8 Neighborhood Legal Services can provide,
9 particularly in the area of predatory lending.

10 And per Ms. Pelton's testimony
11 evidently Mr. Haller was a big help. I would
12 commend Neighborhood Legal Services for their
13 efforts.

14 MR. LODICO: I must add that Dan
15 Haller was there 25 years ago and helped with
16 us in setting up the HEMAP program.

17 REPRESENTATIVE SMITH: He is a
18 constituent of mine as well. So I put a plug
19 in.

20 CHAIRMAN DALEY: Neddie, we do have
21 your number is my understanding, Cathy, we
22 will be contacting you and be working with
23 some departments and local legislator to see
24 what we can do to help you out. We will go

1 out of order a little bit. We have a group
2 that has to leave. We will bring in the panel
3 from 12 o'clock, Mr. Steve Shivak, is that how
4 you say it, Shivak and Agnes Brose and have
5 them come forward for their testimony.

6 At this time I yield the chair for
7 a few moments to my subcommittee chairman on
8 Economic Development, Mr. Nick Kotik.

9 MR. SHIVAK: Good morning, ladies
10 and gentleman, it is my pleasure to be here.
11 My name is Steve Shivak, and I'm the executive
12 director for Pittsburgh Community Reinvestment
13 Group better known as PCRG. And we are
14 located in the Hill District in Pittsburgh,
15 Pennsylvania. We are a 501(c)(3) non-profit
16 organization founded in 1988. And we work
17 tirelessly for working toward economic
18 justice, equitable investment practices and
19 sufficient resources to revitalize communities
20 throughout Allegheny County.

21 As I said, it is a privilege to be
22 here this morning and after I finish my
23 comments, my board member, I don't know who
24 Agnes is but I know Aggie. And Aggie is one

1 of our board members from the Bloomfield
2 Garfield Corporation and also is a co-chair of
3 our anti-predatory lending initiative. And I
4 am pleased and excited that she is here with
5 us today.

6 Over the 19 years that PCRG has
7 been in existence, why are we here today, why
8 do you want to hear from us, what credibility
9 do we have? We have become nationally
10 recognized as a leader on issues of equitable
11 lending. We have national partners in
12 Washington D.C., the National Community
13 Reinvestment Coalition, partner in National
14 People's Action, National Training Information
15 Center, Fannie Mae, Neighborhood Housing
16 Services as well as many others. In addition,
17 we have developed a working relationships with
18 over 17 financial institutions in and around
19 Allegheny County including up and above that
20 the City of Pittsburgh, Pittsburgh's Urban
21 Redevelopment Authority and Allegheny County
22 as a whole.

23 With all these partners PCRG has
24 been able to produce special home purchase

1 mortgage programs, home improvement loan
2 programs and commercial lending products that
3 have dramatically increase access to credit
4 for low income communities. Good programs,
5 not the predatory programs that we have been
6 talking about this morning.

7 Unfortunately, the credit products
8 that we hear about developed by Wall Street
9 firms don't provide our residents financial
10 help or opportunity for sufficiency. In fact,
11 it is just the opposite. The securitization
12 of the residential mortgage markets makes
13 higher foreclosure rates acceptable to
14 investors as the risks are spread over several
15 funds. Therefore, a relatively high default
16 rate is expected and priced into the loans.
17 In other words, mortgage investors and lenders
18 are seeking the borrowers today rather than
19 the borrowers seeking the lenders.

20 As we heard, the rapidly increasing
21 foreclosure rate in our community around the
22 county is an indicator that consumers are
23 having difficulty distinguishing which credit
24 offers are legitimate and best for their

1 circumstances. Between 2001 and 2004 the
2 number of new foreclosure filings in Allegheny
3 County rose from 1,100, to 4,100. The state
4 of foreclosures that Paul mentioned I believe
5 that came about in Allegheny County when we
6 had 1,400. It was 1,400, today we are over
7 6,000. Nothing is happening.

8 I can skip my notes. If we fast
9 forward to where we are today as of January
10 '07 in Allegheny County there are 3,223
11 properties in pre-foreclosure, 3,028 at
12 auction, and 33,310 that are owned by the
13 banks. That is a nine fold increase in
14 foreclosed properties over a period of six
15 years.

16 If we add these three together, we
17 can provide this information for you as
18 committee members. Mr. Daley, in Washington
19 and Fayette County there are 296 properties in
20 one of the states of foreclosure. For
21 Mr. Kotik, Ms. Bennington, Ms. Wagner,
22 Mr. Smith, Allegheny County has total of
23 10,055 properties in one of those states of
24 foreclosure. Mr. White, Allegheny, when you

1 add Allegheny, Beaver and Washington, the
2 numbers add up to 11,181. And for
3 Mr. Longietti there is currently 38 properties
4 in Mercer County in the state of foreclosure.

5 Allegheny County sub prime lending
6 in high foreclosure rates as well as our
7 surrounding counties are a little different
8 when we are compared with the other states
9 mainly because of our senior population. Our
10 seniors are having difficulty finding reliable
11 and safe ways to obtain credit to make the
12 home repairs as our previous speaker mentioned
13 or refinance their home equity.

14 Single parents, minority families
15 seeking home ownership opportunities are being
16 misled by these unscrupulous seller finance or
17 rent to own agreements. Middle, moderate and
18 low income households are having a difficult
19 time meeting the mortgage's terms and are at a
20 high risk of losing their homes.

21 As we have heard, predatory lending
22 is a set of unfair, unethical, and sometimes
23 illegal lending practices designed
24 specifically to deceive unsuspecting

1 homeowners. At PCRG we witness these
2 practices as consumers seek assistance to
3 avoid foreclosure.

4 An example of some of these
5 practices is the over appraisal of a
6 consumer's home value to inflate the loan
7 amount to underwrite a sub prime loan a two
8 mile radius appraisal is sufficient yet in
9 Allegheny County property values can change
10 dramatically from one block to the next. We
11 see this all the time.

12 We also heard about bowling or
13 enticing clients into accepting a loan that is
14 not in their best interest. A consumer may be
15 told by an originator that this is the only
16 credit that they can obtain. They either
17 accept it or they have no credit at all.

18 The originator can also induce a
19 consumer into taking a loan by offering a
20 client a substantial check as an incentive.
21 Bait and switch practices where a client is
22 offered a low loan rate is another method of
23 what is happening. We heard the Secretary
24 mention the teaser rates which don't include

1 taxes or insurance payments in escrow. Over
2 inflating or falsifying the buyer's income and
3 encouraging buyers to roll all credit card
4 debt into the loan which puts them over 100
5 percent of the loan's value and hence they've
6 got no home equity whatsoever.

7 As we heard, mortgage broker or
8 appraisal license is easy to obtain. One of
9 the things we do like about banking bills is
10 it does require the individual brokers to
11 become licensed, we think that is very
12 important. Middle and moderate and low income
13 households not high risk if they are not
14 induced to take on more than they can afford.
15 So, the ability for them to understand where
16 their financial credit is and not being sold
17 or told to buy more house than they can do.
18 In addition to the language in the bills, PCRG
19 we believe the Commonwealth of Pennsylvania
20 should implement an originator identity page
21 to be attached at every mortgage recorded at
22 the Prothonotary's office.

23 The identity page would identify
24 the individuals originating loan by their

1 driver's license, something that is very easy
2 to track. Because the current underwriting
3 practices allow for anonymity which increases
4 the difficulty of pursuing intentional fraud
5 or criminal lending activity under existing
6 laws.

7 Requiring an originator identity
8 pages could assist law enforcement officers in
9 prosecuting mortgage fraud and predatory
10 lending under the existing laws.

11 In addition, the Commonwealth could
12 require mortgage brokers and appraisers to
13 renew their license annually. The fees
14 generated from the license renewals could be
15 applied to many things, one, fund consumer
16 credit education programs, establish a victim
17 of mortgage fraud rescue program, fund public
18 and private partnerships to develop credit
19 innovations that meet the needs of low and
20 moderate income households. The opportunities
21 are endless.

22 Legislation needs to lead to an
23 environment where seniors can safely shop for
24 credit products. Most senior sub prime credit

1 impacts their ability to maintain their home
2 or affects their retirement income. For a
3 senior obtaining a home repair credit or
4 overseeing a home repaired, this can be
5 overwhelming. In particular in a buyer beware
6 shopper environment. From PCRG seniors
7 account for 40 percent of clients that we see.
8 Most of them access our services after
9 attempting to finance a home repair or
10 renovation and are caught up in the example
11 given earlier.

12 Finally, like ACORN, PCRG
13 respectfully requests a six month moratorium
14 on foreclosures to allow this type of
15 discussion with state officials, sheriffs,
16 lending institutions, credible lending
17 institutions, community groups across the
18 state such as PCRG, ACORN, ect, to gather
19 together to find a system to keep individuals
20 and their families in their homes.

21 One of the other bills that I know
22 is in the works that was introduced last
23 session by Representative Frick and Preston
24 was House Bill 2557 last session. I'm not

1 in our neighborhood at all. We couldn't do
2 anything. We got a call from a Stanley Lowe
3 that had just been informed of this powerful
4 Community Reinvestment Act. He had talked to
5 our national partners, National Training
6 Information Center and National Community
7 Reinvestment Corporation. So, we brought
8 their staff down, called together all the CDCs
9 that existed and try to understand what this
10 legislation was that could really help us move
11 capital into the low, moderate income poor
12 neighborhoods and actually promote the
13 American dream. And allow people to become
14 homeowners. Get their share of equity in the
15 world.

16 So we started on that venture and
17 we were very, very successful. The name
18 neighborhoods that were red lined in that day
19 of 1988 by documentation of the lending study
20 at PCRG we have brought in \$4 billion to those
21 same neighborhoods. The movement of capital
22 started. We were able to put a commercial
23 deals together, housing deals together,
24 operating money for the groups, advertisement

1 in our newsletters, create a marvelous
2 partnership to this day with bank partners.
3 We work with them to do outreach on new
4 mortgage products, CRA said reach out find
5 what their needs are, develop products and
6 they did. When did you ever see a product
7 that said they will give you \$5,000 toward
8 closing grant money, all right?

9 And then they helped us when we
10 found out what the denial rate was especially
11 for African-American low income people was
12 credit. You can't get the deal, your credit
13 is bad. So we worked together to create the
14 Community Lending Credit Program and merged
15 with Neighborhood Housing Services so the
16 banks would not deny any longer but refer
17 folks, refer them to credit counseling, get
18 them ready to become a good home buyer, give
19 them a good mortgage product, set them up for
20 success. Set them up to have equity in the
21 world and to leave as a heritage to their
22 children. That is the American dream.

23 And then lo and behold we are
24 experiencing in our neighborhood and in this

1 Allegheny County one of the worst nightmares,
2 nightmares. And it was said today we are not
3 on a witch hunt. I'm on a witch hunt. I'm on
4 a witch hunt to nail everyone of these, this
5 is criminal, criminal what they are robbing us
6 of. I witness it on a daily basis.

7 I hear the heart breaks, I see the
8 people that lose their homes, good people.
9 Good people because they were set up for
10 failure. We try real hard to run ahead of the
11 curve and say education is necessary. We are
12 trying to do that. Financial literacy is so
13 necessary. They took it out of the schools,
14 it used to be in the old math books, it went
15 out, disappeared. So, we got the financial
16 consortium movement. But it is real hard now
17 to get ahead of the curve. We need you. We
18 need this six months moratorium. Desperately.

19 In the paper the last three weeks
20 the sheriff sale hit again, six pages full.
21 Is anybody checking it out? Six pages full in
22 the Post Gazette. Each deal is one inch of
23 print, this big. One inch. To the how many
24 lives are going to be affected? To how many

1 people are going to lose their homes in this
2 next sheriff's sale. How many will not have
3 extended family to take them in as my niece
4 was able to go with her mother with her five
5 kids. How many are going to become homeless?
6 How many will start drinking, alcoholism,
7 child abuse, divorces, the social fabrics of
8 my neighborhood is ripped apart, ripped a
9 part. I'm not being dramatic, it's true. And
10 then because it went to foreclosure, and
11 nobody wanted that house, and it sits in my
12 neighborhood, come on I will take you on a
13 tour. They don't market them.

14 I got one sitting on Broad and
15 Atlantic Avenue by the VA I keep putting in my
16 newspaper as the eyesore property of the
17 month, I can't shame them, I can't hold them
18 accountable, I can't do anything until
19 eventually everyone of those foreclosures cost
20 us around, a municipality cost if about
21 \$34,000 because now as the house sits there,
22 somebody kicks the door open, the gangs start
23 going in, I have to call the police, God
24 forbid it goes on fire like it did in

1 Hazelwood then I have to call the fire
2 department. So it is a cost. It is a cost
3 not only to the person that lost it, it is a
4 cost to lender, it is a cost to society.

5 We were very fortunate that we were
6 bringing this capital in, then all of a sudden
7 the predatory lenders hit. They hit hard.
8 They didn't have a concrete presence here.
9 All of our bank partners, not one bank could
10 compete with them one-on-one. It had to be a
11 joint effort. They are on the phone, they are
12 on your TV, they are on the radio, they are in
13 your face, they will even come to your dining
14 room table and do the deal. And then they do
15 this classic what do you think when you hear
16 drive-by, there was a drive-by in my
17 neighborhood yesterday. What do you think
18 when you here drive by, shoot, somebody just
19 got killed, right? They do their drive-by
20 appraisals. And don't kid yourself, it is no
21 longer staying with the poor and the low
22 income people. It is hitting people with
23 needs, hitting a whole new generation that has
24 all these debts that are refinancing their

1 home, putting their debts on top of them only
2 to wake up and find out I wasn't that smart
3 when they told me to sign this page, boiler
4 plate, sign it, they are taught to speak fast,
5 confuse the hell out of you, not know what you
6 are signing even though you are educated.

7 Sign this page, it is boiler plate. Then you
8 wake up one day and say, I can't pay this
9 bill. I didn't understand this deal. It is
10 your deal now. They made their money, they
11 ran away, they will flip it again, do it over,
12 charge you more money to only set you up for
13 failure.

14 So today I stand here and I
15 actually plead with you with the greatest
16 respect, my own very own Representative Lisa
17 is sitting here with me today works on our
18 behalf. We were fortunate enough when this
19 hit to start to work with the Pennsylvania
20 Department of Banking. Mary Ellen and her
21 folks Paul we met in Shady Side we come out
22 with a little action plan, a committee was
23 created, we sat at that table since 2003.
24 They did the due diligence, the

1 recommendations are here, they did all the
2 work for you. They are beautiful.

3 So we stand here to say, we would
4 like to see you pass these amended state laws
5 to start bringing this to resolution. We
6 would like to see to the moratorium for six
7 months. We would also like to see you engage
8 in what Mary Ellen produced today. Because I
9 will tell you what, if people are out in the
10 trenches and on the streets with people
11 holding hands, they are people like us. We
12 are bringing the story to you. We can stand
13 here for a month if you want us to. We can
14 bring person after person. It is heart
15 breaking. I'm sure that you are not escaping
16 it, I'm sure some of you have possibly a loved
17 one as I had or possibly an extended family
18 member or a neighbor that went into
19 foreclosure, if you don't I'm surprised
20 because I'm surrounded by them in my
21 neighborhood. It is taking us out.

22 We built 23 new homes and we sold
23 23 new homes. We are on the verge of building
24 another 8 as I stand here now on top of that

1 we will build another 19. Guess what, I'm
2 building this part of the neighborhood and
3 this one over here is going down in sand.
4 They were a homeowner last year, guess what,
5 these are on the list for foreclosure this
6 time.

7 We can't catch up, the sand is
8 shifting we need you desperately, I respect
9 you, I am asking you to look at the good work
10 that was created through the committee with
11 the Department of Banking. It was a lot of
12 thought. I travelled a lot as the chair for
13 the working families and one of the things I
14 tried very hard to do on my committee as chair
15 was to stop giving college students credit
16 cards, who don't have jobs and can't pay them.
17 When they can't pay them, they wake up the
18 next morning and find out I can't get my loan
19 for my next year in school because I got that
20 on my credit report. Rude awakening, rude
21 awakening.

22 And I can tell you horror stories
23 about those young people. So with the
24 greatest respect, thank you for having us here

1 today. Please listen to your good partners at
2 the Department of Banking. They have done all
3 the homework that they can. We need you to
4 carry on. Thank you very much.

5 REPRESENTATIVE KOTIK: Ms. Brose,
6 thank you for your testimony, any questions
7 from members of the committee.

8 REPRESENTATIVE BENNINGTON: I
9 wanted to thank you Aggie for coming, Aggie is
10 a dedicated community activist in the
11 Bloomfield Garfield area we are taking to
12 heart everything you said today we will be
13 working on your package of bills.

14 MS. BROSE: Thank you.

15 REPRESENTATIVE KOTIK: Any other
16 questions for members committee or comments?
17 Hearing none, we will take a short break.

18 (Recess held)

19 CHAIRMAN DALEY: The next testifier
20 will be Mr. Alan Bennett, senior vice
21 president of First National Bank in
22 Pennsylvania with the Pennsylvania Banking
23 Association. Mr. Bennett, welcome this
24 morning.

1 MR. BENNETT: Thank you. Good
2 morning Chairman Daley, members of the
3 Commerce Committee, my name is Al Bennett,
4 senior vice president of First National Bank
5 of Pennsylvania headquartered in Hermitage,
6 Mercer County, Pennsylvania. First National
7 is a 5.9 billion asset-sized institution with
8 a market presence in 23 Pennsylvania counties
9 and five in Ohio. I have been in the banking
10 business for 31 years and consumer and
11 mortgage lending and servicing and have been
12 through both the up and down cycles of in the
13 mortgage markets. I'm here today representing
14 the Pennsylvania Bankers Association.

15 The Pennsylvania Banker Association
16 is the state-wide trade association
17 representing approximately 200 financial
18 institutions of all sizes located throughout
19 the Commonwealth including national, state
20 banks, bank and trust companies, trust
21 companies, savings institutions and their
22 subsidiaries and affiliates.

23 Just a brief comment on the banking
24 industry structure and oversight. Depository

1 institutions include banks, savings banks,
2 savings associations, bank and trust companies
3 and stand alone trust companies.

4 Financial institution regulation in
5 the United States is extremely complex. A
6 bank's primary federal regulator can be the
7 Federal Reserve Board, the Office of the
8 Comptroller of the Currency, the Office of
9 Thrift Supervision or the Federal Deposit
10 Insurance Corporation within the Federal
11 Reserve system alone there are 12 districts
12 and 12 different regulatory examination
13 staffs. State chartered institutions also
14 answer to one of the 50 state regulatory
15 agencies.

16 The list of regulations issued by
17 the Federal Reserve alone extends beyond the
18 alphabet. We are now up to regulation FF,
19 which regulates obtaining and using medical
20 information in connectin to credit.

21 Financial institutions' burden of
22 complying with federal and state laws and
23 regulations is staggering, running well into
24 the billions of dollars industry-wide.

1 The PBA appreciates the opportunity
2 to appear today as the Commonwealth considers
3 the important issue of residential mortgage
4 lending in the Commonwealth. We wish to state
5 emphatically the PBA abhors predatory lending.
6 It will not be tolerated by our members and
7 certainly not by the regulators who would take
8 swift and sever action against any financial
9 institution which preyed on consumers. It
10 would not tolerated by our members. At the
11 same time we realize there are some
12 unscrupulous individuals ignore existing laws
13 against fraud for personal gain.

14 In certain instances those who
15 colluded to deceive consumers as well as
16 ultimate purchasers of residential mortgages
17 such as banks, such as investment houses, such
18 as pension funds, escape discovery until a
19 number of home buyers face financial
20 difficulty and learn their home purchases
21 involve fraud.

22 Residential real estate fraud must
23 be prevented, but when it is occurs, it must
24 be vigorously prosecuted. We strongly support

1 enforcement of existing federal and state
2 statutes against those who violate them.

3 We are encouraged by the Office of
4 the Attorney General's prosecutions of
5 residential mortgage fraud cases referred to
6 it. We believe that strong enforcement of
7 existing laws is the best means to
8 dramatically reduce the incentive to create
9 such fraud.

10 As you know, banks that purchase
11 residential real estate loans which they later
12 discover were made by fraud face significant
13 financial losses and reputation damage that
14 are rarely recovered.

15 A brief comment, if I might, on
16 home ownership statistics. According to the
17 U.S. Census Bureau, home ownership in
18 Pennsylvania rose from 59.7 percent in 1950 to
19 71.3 percent in the year 2000. There is no
20 doubt this dramatic increase was due in part
21 to significant advances in the economy,
22 technology and the housing markets, but it is
23 also due to the extensive efforts of banks and
24 their affiliates made to offer home loans to

1 low and moderate income home buyers.

2 Turning to the subject of
3 foreclosure.

4 According to the FDIC which
5 maintains data on all insured depository
6 institutions, despite the fact that one-third
7 of the banks and thrift institutions in the
8 mid-Atlantic states specialize in residential
9 lending and the economies of the mid-Atlantic
10 states are somewhat dependent upon the housing
11 sector, job growth in the financial services
12 industries and education and health care
13 sectors may insulate our regional economy from
14 a housing market slowdown.

15 The Mortgage Bankers Association of
16 America otherwise known as MBA, a national
17 trade group not affiliated with PBA conducts
18 comprehensive, ongoing mortgage market
19 statistical research. MBA's chairman recently
20 commented on the national mortgage foreclosure
21 rate in congressional testimony.

22 He stated: While overall
23 delinquencies rose in fourth quarter 2006,
24 assertions that delinquency rates are at

1 crisis levels and that a greater percentage of
2 borrowers are losing their homes are not yet
3 supported by data. In fact, delinquency and
4 foreclosure rates have remained relatively low
5 as a percentage of the total mortgage market.
6 And total mortgages outstanding over the last
7 year. Consistent with the housing market
8 correction.

9 In congressional testimony earlier
10 this week, FDIC chairwoman Sheila Blair
11 explained that there is no silver bullet to
12 rescue all homeowners defaulting on sub prime
13 loans.

14 Please hear us. Banks and their
15 affiliates want their borrowers to stay in
16 their homes. No one wants a foreclosure.
17 Everyone loses. Highly regulated lenders such
18 as PBA members have absolutely no economic
19 incentive to make loans they do not believe
20 borrowers will be able to sustain because
21 their regulators closely monitor their loan
22 portfolio risk, as does the market.

23 Earlier this week the federal
24 financial institution regulatory agencies

1 issued guidance to the institutions they
2 regulate encouraging us to consider prudent
3 work-out arrangements that increase the
4 potential for financially-stressed residential
5 borrowers to keep their homes. However, the
6 regulators also stated that there may be
7 instances where work-out arrangements are not
8 economically feasible, viable or appropriate.

9 Since those instances are primary
10 causes, I'm sorry, the vast majority of
11 residential mortgage foreclosures result from
12 economic downturns, job losses, income
13 reductions or other life events such as death
14 or illness of a family member and often a
15 divorce.

16 Since these instances are the
17 primary causes of mortgage default reducing
18 the resulting foreclosure rate significantly
19 can only be accomplished by addressing these
20 precipitating events directly. Legislating
21 statutory restrictions on residential mortgage
22 product features cannot make a significant
23 impact in mortgage foreclosure rate which
24 generally tracks the overall economic cycle.

1 Financial literacy is improvement,
2 is paramount. PBA actively supports the
3 American Banker Association's nationwide
4 efforts each spring to educate children and
5 adults about personal finances. PBA members
6 volunteer countless hours in schools and
7 community events to educate customers, and
8 prospective customers every chance they get by
9 as many means as they can including community
10 and non-profit housing affairs, first time
11 home buyer programs, budgeting and credit
12 counseling seminars, bank foundations that
13 fund Consumer Credit Counseling Services and
14 Neighborhood Housing Services as well as
15 general financial literacy education,
16 providing instruction using the FDIC's Money
17 Smart Program, supporting Family Savings and
18 Individual Development Account Programs,
19 participation in community action and
20 re-investment coalitions and anti-predatory
21 lending task forces, and bank websites that
22 have links to financial planning tools and/or
23 contact information to support virtually every
24 personal financial need a consumer may have.

1 One example is the link to the ABA
2 Education Foundation's Consumer Connection
3 site and the website is in the packet
4 distributed.

5 We urge the committee members to
6 contact your local banks, to offer to
7 accompany their employees in classrooms and
8 elsewhere and to assist in these important
9 outreach efforts.

10 I would like to turn just as
11 quickly as I can to the Department of
12 Banking's request for statutory amendments.

13 With respect to the specific
14 mortgage lending proposals that have recently
15 been introduced in the House, PBA's Credit
16 Access Task Force reviewed the department's
17 proposals during their development and advised
18 the Government Relations Policy Committee to
19 establish PBA's positions on this legislation.

20 The Department proposes to amend
21 the Loan Interest and Protection Law, Act 6 of
22 1974, to increase the monetary cap in the Act
23 from \$50,000 to \$197,000 which the Department
24 will adjust annually for inflation. The

1 primary impact would be to prohibit prepayment
2 penalties on mortgage loans covered by the
3 Act.

4 This bill would also permit the
5 Department to investigate and examine, issue
6 cease and desist orders, suspend licenses and
7 bar individuals from serving in capacities
8 regulated by the Department for violations of
9 the Act.

10 It is PBA's view that free markets
11 are best means to govern products and
12 services. The mortgage market is extremely
13 competitive. Most residential mortgages are
14 already obtained without prepayment penalties.
15 Prepayment penalties are merely a means by
16 which a mortgage can be priced down as the
17 lender mitigates prepayment risk. Borrowers
18 may choose the option or they may not.

19 The Department requested an
20 amendment to the Department of Banking Code in
21 1933 which delineates the Department's powers
22 and duties to permit the Department to
23 publicly release information regarding pending
24 enforcement actions against non-depository

1 licenses such as mortgage bankers and
2 brokers. Under the current statute the
3 Department has stated its belief it may
4 release information to the public only after a
5 final order is issued against a licensee.

6 The PBA believes that the
7 Department of Banking Code requires a number
8 of amendments to modernize its administrative
9 procedures and would like the opportunity to
10 elaborate on our suggestions at a later date.

11 With respect to the specific issue
12 of the release of information by the
13 Department regarding pending enforcement
14 actions against non-depository licensees, PBA
15 will support the disclosure of final,
16 fully-adjudicated enforcement actions.

17 The Department wishes to amend the
18 Real Estate Appraiser Certification Act to
19 include the Attorney General and Secretary of
20 Banking on the State Board of Real Estate
21 Appraisers; increase the maximum civil penalty
22 the board may assess from 1,000 to 10,000 for
23 each violation of this Act or who performs
24 appraisals in any federally-related or

1 non-federally-related real estate transaction
2 without being certified; and provide for
3 licensure denial, suspension or revocation in
4 additional circumstances.

5 PBA has long advocated for
6 reformation of the State Board of Certified
7 Real Estate Appraisers. In addition to
8 changes the Department proposes, PBA requests
9 that experienced commercial and consumer real
10 estate lenders be added to that Board.

11 PBA also notes that certified
12 appraisals are not required by federal banking
13 regulators in de minimis transactions and we
14 would appreciate clarification that these
15 amendments are not an attempt to obviate the
16 federal financial institutions regulators'
17 ability to govern bank real estate lending.

18 There is a pending proposal to
19 amend the Pennsylvania Housing Finance Agency
20 statute that governs the Homeowner Emergency
21 Mortgage Assistance Program or HEMAP as we
22 heard it referred to.

23 Number one, to require lenders to
24 send copies of revised and expanded Act 91

1 foreclosure notice to PHFA so that mortgage
2 foreclosures can monitored on a state wide
3 basis. Such copies could be provided by mail,
4 fax or electronically. Lenders would have to
5 provide copies of specified documents from the
6 original mortgage transaction to PHFA in order
7 to receive payments on behalf of mortgagors
8 approved for assistance.

9 Secondly, to extend PHFA's
10 temporary stay of foreclosure under the HEMAP
11 program to include the period of
12 administrative appeal.

13 Thirdly, reduce the interest rate
14 on HEMAP loans from nine percent to the
15 interest rate under Act 6 of 1974.

16 PBA's position is we should note
17 that only a very small percentage of Act 91
18 notices result in mortgage foreclosure.

19 PBA believes that its members would
20 be unable to provide in the time allotted all
21 of the information specified by the expanded
22 notice as well as those documents specified
23 from original mortgage loan and cannot support
24 such requirements.

1 PBA members will agree to supply
2 PHFA a quarterly summary of Act 91 notices
3 sent to mortgagors in their current form
4 arrayed by zip code versus county or census
5 tract.

6 PBA cannot support extending the
7 stay given that very few HEMAP applications
8 are approved after an administrative appeal.

9 The Department proposed amending
10 the Mortgage Bankers and Brokers and Consumer
11 Equity Protection Act and the Secondary
12 Mortgage Loan Act to: Create a new licensing
13 category for individual mortgage originators.
14 This is an individual who deals directly with
15 the consumer by soliciting, accepting or
16 offering to accept loan applications or
17 negotiating mortgage loan terms.

18 Secondly, to create a pre licensing
19 education and testing requirement for mortgage
20 originators -- in addition to continuing
21 education requirements currently in place by
22 law.

23 Thirdly, eliminate the real estate
24 licensee, builder and insurance company

1 exemptions from the Act;

2 And fourthly, to strengthen and
3 make uniform the licensing requirements and
4 enforcement provisions of the Acts.

5 The PBA's position. As noted
6 above, financial institutions and their
7 affiliates are already highly regulated and
8 routinely examined for compliance with those
9 rules by federal financial institution
10 regulators in addition to state banking
11 departments in the case of state charters.

12 With respect to the issue of the
13 extent to which states can regulate or license
14 national banks or their subsidiaries, earlier
15 this week the United States Supreme Court
16 decided that:

17 In accord with the Court of Appeals
18 that have addressed the issue, we hold the
19 national bank's mortgage business, whether
20 conducted by the bank itself or through the
21 bank's operating subsidiary is subject to the
22 OCC's superintendence, and not to the
23 licensing, reporting and visitorial regimes of
24 the several states in which the subsidiary

1 operates.

2 This decision avoids a patchwork of
3 duplicative and conflicting federal and state
4 regulation. Now the banking industry can
5 focus on the more important issue of
6 compliance versus which set of rules apply.

7 PBA thanks the committee for this
8 opportunity to present its views. We look
9 forward to working with you on this and other
10 issues. I will be happy to field any
11 questions the committee might have.

12 CHAIRMAN DALEY: Mr. Bennett, thank
13 you very much for your very detailed
14 testimony. Up and down this direction. We
15 will go to Jesse first, any questions.

16 REPRESENTATIVE WHITE: No
17 questions.

18 CHAIRMAN DALEY: Nick?

19 REPRESENTATIVE KOTIK: Thank you,
20 Mr. Chairman. Thank you again for your
21 testimony. My main question it seems to me we
22 have a lot of very reputable people helping
23 people to obtain mortgages. My question, and
24 I think the intent of this committee is to

1 find the bad apples. Those are the ones that
2 are ruining the reputation of the industry as
3 a whole. I think that is the concern of this
4 committee, you know, we want to make that, we
5 want to make the bad apples go away and I
6 think that if we all work together in that
7 regard, we can accomplish that.

8 MR. BENNETT: We would agree with
9 that.

10 REPRESENTATIVE KOTIK: Thank you.

11 CHAIRMAN DALEY: Representative
12 Longenetti.

13 REPRESENTATIVE LONGENETTI: I have
14 a comment, I want to thank Mr. Bennett for
15 being here, First National Bank of
16 Pennsylvania is headquartered here in my
17 district. I'm here to say that over the years
18 I have noticed they are very good corporate
19 citizens, very involved in the community.
20 That is where I have my personal account, by
21 the way.

22 MR. BENNETT: We appreciate that.

23 REPRESENTATIVE LONGENETTI: They
24 make a lot of jobs to my area as well. It is

1 good to see you here today.

2 MR. BENNETT: Thank you.

3 CHAIRMAN DALEY: Representative
4 Bennington.

5 REPRESENTATIVE BENNINGTON:
6 Nothing.

7 CHAIRMAN DALEY: Do any other
8 members, staff have questions? Thank you very
9 much for your testimony.

10 MR. BENNETT: Thank you.

11 CHAIRMAN DALEY: The next testifier
12 will be Mr. Jim Bulger, Pennsylvania
13 Association of Mortgage Brokers. There is a
14 typo in the agenda instead of mortgage banker.

15 MR. BULGER: Thank you for
16 clarifying that Mr. Daley, I appreciate that.
17 My name is Jim Bulger, I'm the president of
18 Pennsylvania Association of Mortgage Brokers
19 and an account executive Homecomings
20 Financial. I thank Chairman Daley for the
21 opportunity to speak to you today about the
22 mortgage industry and the issues that
23 currently affect consumers of the
24 Commonwealth.

1 I would like to applaud the
2 Department of Banking and this body for
3 getting in front of the foreclosure issue long
4 before it became a national one. At the
5 request of the General Assembly the Department
6 commissioned a task force to study the
7 foreclosures in which our organization was a
8 part of. I believe that much of what is being
9 discussed here today is a direct result of
10 that task force. In addition, I am happy to
11 be a continuing contributor in the process of
12 helping to ensure a stable housing market for
13 the Commonwealth of Pennsylvania.

14 With all of the latest press that
15 has been given to the foreclosure situation
16 and the sub prime market changes that have
17 been taking place, I fear there will be a
18 knee-jerk reaction to some of the issues
19 taking place. I do applaud the committee for
20 taking a moment to pause and listen to all
21 involved in this matter.

22 The mortgage industry is complex.
23 It involves many players that ultimately have
24 the same goal, providing affordable housing

1 finance to consumers so that all may achieve
2 the American dream, home ownership. The
3 recent closing of many sub prime companies
4 have led many public officials to question
5 some of the programs and practices that we,
6 the members of the industry use on daily bases
7 to achieve these goals. I'm here to report to
8 you that the practices and products of the
9 industry are not the problem, rather,
10 unscrupulous people are.

11 Mortgage lenders only want to make
12 loans that they believe will be paid back
13 according to the terms set out at origination.
14 When loans are not repaid in a timely manner,
15 it affects us all. The consumers, the
16 mortgage industry, and indeed you, our elected
17 officials. This is precisely why you have
18 seen companies go out of business and
19 companies start to pull back product. The
20 market has a tendency to correct itself on
21 products and guidelines to mirror the changing
22 climate of the economy. Pennsylvania's
23 economy also plays a factor into why we have
24 seen a rise in foreclosure rates. We have

1 seen job loss, fuel and property tax
2 increases, many Pennsylvania consumers are not
3 able to make their mortgage payments on time
4 because of this. This is why we see a raise
5 in foreclosure rates. With that said, we all
6 here on the news the unfortunate stories about
7 consumers who were placed into situations that
8 caused them to suffer injury. We have seen
9 some of that today. The members of my
10 association are disturbed with some of the
11 things we hear about and promise you we want
12 to do everything in our power to education the
13 consumers of Pennsylvania how to avoid
14 foreclosure. The consumer, however, will not
15 be protected by knee-jerk regulations and the
16 removal of products designed to help a certain
17 segment of consumers.

18 Each mortgage property offered is
19 unique and is intended for a certain borrower.
20 Removing a whole classification of products
21 from the toolbox of the mortgage originator
22 cause disaster in the housing market.

23 It could make it harder for current
24 homeowners to move up to better housing and

1 then create a lack of affordable housing for
2 first time home buyers. This would end up
3 hurting the very consumer that this body and
4 our association wish to protect.

5 So what is the solution? I turn to
6 the mission of our association which is to
7 provide education to our members and consumers
8 and to ensure that only the most ethical
9 standards of mortgage lending are followed,
10 while allowing greater consumer choice to
11 ensure favorable market conditions for
12 consumers. This can be achieved by regulation
13 of people, not product.

14 The exotic products that are under
15 scrutiny such as interest only loans, payment
16 option ARMs, and reduced income documentation
17 loans all have a place in the housing market.
18 Interest only loans are a great way for a new
19 professional who knows that his income will
20 increase over time, due to the nature of his
21 profession, to obtain financing for his dream
22 home now instead of waiting for his career to
23 progress. Payment option ARMs are a wonderful
24 tool for the financially perceptive borrowers

1 who have fluctuating income and need the
2 flexibility to meet their housing needs.

3 Reduced documentation loans are
4 wonderful for self-employed, commissioned or
5 tip borrowers to obtain financing.
6 Oftentimes, these borrowers have income that
7 is simply not documented by traditional means.
8 Therefore, the removal of these loans would
9 cause serious housing gap making by making it
10 near impossible for borrowers with these
11 income streams to obtain financing.

12 Please keep in mind that the
13 industry already sets guidelines to help make
14 sure that these loans are made available to
15 proper individuals. These guidelines are
16 always changing to ensure that they are in
17 line with current economics trends so that the
18 loans that we originate are sellable in the
19 secondary market.

20 Occasionally, there are individuals
21 who do get into these loans who should not be
22 there. This is not the result of just these
23 products being offered. Rather, it is the
24 result of uneducated, unregulated individuals.

1 This is where this body comes in.

2 We as an association have been
3 working with the Department of Banking to help
4 make the industry a safer place for consumers.
5 We believe that the Department has come up
6 with a good approach for meeting these goals.
7 This body has introduced legislation suggested
8 by the Department of Banking that will mandate
9 the licensure and education of all mortgage
10 originators. If this comes to fruition, we as
11 an industry will be able to ensure that the
12 people who are helping consumers with the
13 biggest financial decision of their lives are
14 the, are only the ones of the highest ethical
15 and professional standards. This legislation
16 will also ensure that we as an industry have
17 the teeth to make sure that the bad actors in
18 our business will be removed and unable to
19 practice our profession any longer. Other
20 professions such as financial planners, real
21 estate agents and even automobile salespeople
22 are required to hold a license do business in
23 the Commonwealth. It is time to require
24 mortgage originators to do the same. I thank

1 you for your time and will answer any
2 questions.

3 CHAIRMAN DALEY: Thank you very
4 much, Mr. Bulger, questions from members of
5 the committee? Any staff have any questions?
6 I guess you said it all. That is a good
7 thing.

8 MR. BULGER: Thank you Chairman.

9 CHAIRMAN DALEY: The next person to
10 testify will be Mr. Brian Hudson, executive
11 director of the Pennsylvania Housing Financing
12 Agency. Brian welcome to Western
13 Pennsylvania.

14 MR. HUDSON: Thank you,
15 Mr. Chairman committee members, thank you for
16 giving me the opportunity to speak to you
17 today. I am Brian Hudson executive director
18 and CEO of the Pennsylvania Housing Financing
19 Agency. From an overview PHFA is the
20 Commonwealth's leading provider of affordable
21 housing throughout the Commonwealth. We
22 supply rental housing, mortgages for first
23 time home buyers and we also operate the
24 Homeowner and Emergency Mortgage Assistance

1 Program which is funded by the Commonwealth.

2 We raise our funds for the first
3 time home buyer program in our rental
4 properties financing through the sale of
5 taxable and tax exempt securities, typically
6 selling anywhere from 500 million to 700
7 million annually. What I would like to do is
8 give you an overview of HEMAP program, talk
9 about some of PHFA's initiatives to deal with
10 the issue and I will say with the Secretary,
11 concur with the Secretary of Banking I applaud
12 your efforts to address this issue. HEMAP was
13 created in 1983 as a result of the downturn in
14 the steel industry and particularly in the
15 Southwestern part of the state. It is totally
16 funded by the Commonwealth. To date the
17 Commonwealth has appropriated over \$200
18 million for the program.

19 We have saved over 38,000 homes
20 from foreclosure. It is a revolving loan
21 fund. We have lent almost 400 million under
22 that particular fund. It has been recognized
23 as Harvard University and the Ash Institute as
24 this year one of the top 18 innovations in

1 American government. We are hoping to make
2 the top seven which means we will get some
3 sort of monetary stipend that comes along with
4 that. We do plan to put that into the fund.

5 Generally, the program works as
6 follows: Someone with a mortgage in the
7 Commonwealth becomes 60 days or more
8 delinquent before foreclosing lenders are
9 required to extend what is called an Act 91
10 notice. Informing the homeowner of the HEMAP
11 program and directions of how to apply. We've
12 worked with 84 counseling agencies throughout
13 the Commonwealth. Now these counseling
14 agencies are trained by PHFA and we broadened
15 the network to include not just HEMAP
16 counseling but also credit, pre purchase, post
17 purchase and predatory lending counseling.
18 Those counseling agencies will review the
19 homeowner's records, credit and in some cases
20 when available or if they are able to, they
21 will try to structure some sort of work-out
22 with the mortgage lender. As you heard
23 previously sometimes that can be difficult.
24 Upon receipt of the application, the agency

1 has 60 days to render an opinion or decision
2 of eligibility.

3 Typically, we try to turn that
4 around within 15 to 20 days. The following
5 eligibility criteria must be met to obtain the
6 HEMAP loan. Number one, the homeowner must be
7 60 days delinquent or at least one of their
8 mortgages. The homeowner has more than one
9 mortgage not all the mortgages need to be
10 delinquent however no more than two mortgages
11 can receive assistance because HEMAP can be in
12 no worse than third lien position. The home
13 must be located Pennsylvania. Homeowner must
14 reside, it must be their primary place of
15 residence. And the home must be for one or
16 two family residents.

17 Mortgage loans insured by FHA are
18 not eligible over HEMAP because FHA has their
19 own loss mitigation program. I will mention
20 here at this point that the average loan for
21 the HEMAP program is about \$10,000, the
22 average cost to carry an FHA loan is currently
23 around \$35,000. That is one of the reasons
24 why HEMAP is recognized by the Harvard and the

1 Ash Institute for its efforts.

2 The HEMAP loan cannot exceed
3 \$60,000 or 24 months of mortgage assistance.
4 This is a change that was implemented in 1998
5 and prior to that there was no limit on the
6 HEMAP loan and went up to 36 months of
7 assistance.

8 Homeowners must be suffering
9 financial hardship due to circumstances beyond
10 their control which render them unable to
11 correct the delinquency within a reasonable
12 period of time. Loss of employment due to
13 layoff, strike, medical reasons typically are
14 the circumstances we see out of the
15 homeowner's control. And they must
16 demonstrate the ability to be back on their
17 feet and resume their mortgage payments within
18 24 months. Since the program is temporary, it
19 is counter productive to provide assistance to
20 applicants who can never regain or be able to
21 make their mortgage payments.

22 If approved, the homeowner can
23 receive 24 months of loan help, mortgage
24 payments are made directly to the lender and

1 not to the homeowner but on their behalf. Or
2 assistance in the form of a loan.

3 One of the changes that we
4 recommend as part of House Bill 1083 which we
5 urge your support on also is to reduce that
6 rate currently at nine percent by law to
7 reflect current market conditions. In today's
8 market that rate would be about seven and a
9 quarter percent for those individuals who
10 obviously need the help the most.

11 If denied, a HEMAP applicant has 15
12 days to appeal that denial. We actually see
13 approximately 120 loans appealed on a monthly
14 basis, or about 1400 annually. We overturn or
15 reverse about 12 percent of those decisions.
16 The program as I mentioned previously the
17 program has been very successful it has saved
18 over 38,000 Pennsylvania homes from
19 foreclosure. And over 18,000 loans have been
20 paid in full to HEMAP. HEMAP has received
21 over 220 million in repayments.

22 The Commonwealth's high foreclosure
23 rate and predator lending issue has pressured
24 the programs over the last two years resulting

1 in a large increase of loan disbursements
2 during '04, '05, '06 fiscal years currently
3 receiving about 10,000 applications annually.
4 We will approve or close about 2200 loans a
5 year. Approval and closing, approval will be
6 about 2700, we actually close about 2200.

7 We are in the budget for the
8 current budget for about 11 million in
9 funding. And last year we received 10 million
10 in funding.

11 The changes that we recommend which
12 are part of the House Bill 1080. Increasing
13 the amount of information required to be
14 included in Act 91 notice requiring lenders to
15 send a copy of that Act 91 notice to PHFA.
16 Now we heard a lot of foreclosure pockets and
17 things going on across the Commonwealth. I
18 will say that we did work directly with the
19 Department of Banking on the Monroe County
20 issue. Myself and former secretary Bill
21 Schink spent a lot of time in Monroe County.
22 This is one of the reasons why we are making
23 this recommendation. We would like to receive
24 the notice at PHFA directly to determine where

1 the hot pockets are and begin to immediately
2 address the issues that may occur with regards
3 to those hot pockets around the Commonwealth.

4 Continue to stay until the appeal
5 hearing. We would like the homeowner to have
6 the opportunity to appeal that stay and cease
7 foreclosure proceedings. It is already a
8 stressful situation the homeowner incurred at
9 that point. If for some reason the question
10 that we received from some of the lenders were
11 would the legal fees still be paid if HEMAP
12 approves the loan and the answer to the
13 question is yes.

14 Requiring lenders to provide for
15 reinstatement information. This has been an
16 issue that has been a problem for sometime.
17 In some cases reinstatement has been taking as
18 long as 60 days and in some cases six months
19 or more. So we want to beef up this portion
20 of the law so we can get the reinstatements on
21 a timely basis from the lender which would
22 allow PHFA to move more quickly.

23 Another piece of the law requires
24 PHFA to do an ongoing analysis of foreclosures

1 in the Commonwealth and provide
2 recommendations to address the problems. We
3 support this wholeheartedly and we are willing
4 to take on that role, take on that role very
5 enthusiastically. We have done some things I
6 would like to talk to you about that shortly
7 to determine where the hot pockets are in the
8 Commonwealth in doing foreclosure studies on a
9 periodic basis reporting that to the
10 Legislature.

11 Some of the things that PHFA has
12 been doing, I'm hoping to have in two months a
13 workout program, a refinance program and this
14 doesn't deal with all the sub prime activities
15 right off the bat, but we are looking to
16 provide refinancing for those individuals who
17 are in the mortgage as a result of, not the
18 right mortgage for them. If their credit
19 score, for instance, was favorable prior to
20 taking out that mortgage, we want to look at
21 that individual. We have had conversations
22 with both Fannie Mae and Freddie Mac. I think
23 Freddie Mac announced they are willing to put
24 20 billion into the market to refinance

1 individuals.

2 The key on the federal side
3 certainly with Fannie and Freddie are they
4 going to go low enough on the credit score
5 basis to help some of the Pennsylvania
6 homeowners. If that's the case, we would love
7 to partner with them. But we would like them
8 to go lower than 620 is typically where Fannie
9 may be. We want to go into the mid fives or
10 lower if need be. That is the refinance fund,
11 which means that we will sell taxable bonds to
12 refinance individuals who are in the wrong
13 mortgage, a variable rate mortgage that may be
14 getting to reset, where the credit was good
15 prior taking out the mortgage, we want to help
16 that individual.

17 The other type of fund I want to
18 talk about is a restructuring fund. This is
19 clearly is someone credit has deteriorated to
20 the point where maybe the credit score may be
21 in 400s or even lower. They are in
22 bankruptcy, there are issues with that. That
23 is clearly a different type of fund to totally
24 restructure. We are not suggesting a bail-out

1 as termed in some of the other levels for the
2 lenders, we think the lenders participate as
3 part of that. Put up some capital that would
4 be at risk capital.

5 PHFA would be willing to put some
6 of its capital at risk. I have had
7 discussions with a number of foundations who
8 also would be willing to do the same thing put
9 capital on the table to restructure a work-out
10 fund for those individuals in such a
11 situation. So, I would hope to bring back to
12 you some information to share, positive
13 information that we developed these type of
14 products over the next few months.

15 In addition, we are looking at we
16 announced last September a renovate and repair
17 product. One of the main reasons why we have
18 seen not only in HEMAP program but across the
19 Commonwealth why some homeowners get into
20 trouble because they take out the repair loan
21 that drives them into foreclosure. As I
22 mentioned in my testimony, it can be the
23 second or third loan that pushes a homeowner
24 into foreclosure. We developed a product

1 called renovate and repair, it is a loan. We
2 will lend up to 120 percent of the loan to
3 value of the property to the homeowner at
4 fixed rates which is the key here. Because
5 most of the products on the market are
6 variable. They move with interest rates. But
7 these would be fixed rates for five, ten, 15
8 and 20 years. We lend up to 35,000.

9 We think that product is going to
10 be very attractive over the years to combat
11 predatory lending. In addition, we have a
12 counseling agency network right now with over
13 100 counseling agents that we train predatory
14 lending, home purchase. We hope that they
15 will be our first line of defense with regards
16 to helping sub prime homeowners not only to
17 direct them to the right program, HEMAP
18 refinance work with the lender but also
19 counsel them before they take out the loan.
20 Is this the right loan. Get a second opinion
21 on the mortgage.

22 Those are some of the things we
23 look to do over the next few months to help
24 the Commonwealth residents.

1 One other product I would mention
2 also is a reverse mortgage. Ten years ago
3 PHFA was in a reverse mortgage program. We
4 exited the market as a result of enough
5 private sector companies offering a similar
6 product. I think we will be back in the
7 market by the end of the year we will have a
8 product that offers a high payout for
9 individuals who are house rich and cash poor
10 with less points, less fees up front.

11 So we hope to have a product that
12 will bring back to you to offer our elderly
13 Commonwealth residents so they can age in
14 place and keep their home. We work with the
15 federal government I mentioned to create a
16 nationwide housing trust fund that would be a
17 portion of the Freddie Mac and Fannie Mae
18 earnings. We lobbied in Washington very hard
19 to do that. On an annual basis it would be
20 about a billion dollars prorated among the
21 state's population. We hope it comes to PHFA
22 to do that. It will be part of to be
23 considered part of the workout fund.

24 In addition, we will be bringing

1 back to you for your support a creation of a
2 state-wide housing trust fund, not looking for
3 an appropriation, some sort of fee that may go
4 along with the insurance. That could be
5 dedicated to such a workout fund.

6 Last but not least, we are just
7 about completing a state-wide housing study
8 which we are looking at all the neighborhoods
9 across the Commonwealth. What type of housing
10 is needed and where is it needed? In some
11 communities it may be home ownership. In
12 others it may be rental, in others it may be
13 mixed use a combination of commercial. We
14 basically committed to dedicate our resources
15 to do just that. Not just to PHFA, but all
16 the Commonwealth agencies. We submit that
17 report to the Governor and the Legislature for
18 your input on draft basis. We think a
19 coordination of all agencies helping in the
20 communities, we want to be proactive in terms
21 of what type of housing is needed. Typically
22 when we are approached by developer, we react
23 to his proposal as to where the development
24 should be. We want to incentivise those areas

1 are hard to develop and push developers to
2 those areas for the various communities. I
3 will be more than happy to work with you in
4 the future and again I applaud you for taking
5 on the effort on sub prime mortgages and are
6 willing to assist in any way we can, thank
7 you.

8 CHAIRMAN DALEY: Mr. Hudson, thank
9 you for your testimony. You heard earlier
10 there was suggestion about, the suggested
11 possibility of doing a moratorium on
12 foreclosures in Pennsylvania. And we've
13 already started discussing that here at the
14 front table and some people in the audience.
15 If we had a voluntary program in which we had
16 a moratorium, would there be any moneys
17 available through PHFA that we could set aside
18 to special emergency fund to help those
19 foreclosures, individuals in foreclosure pay
20 their interest rate for a period of time
21 during the moratorium or the stay so to speak
22 let's say six months until we come up with
23 some legislation that may address that? Is
24 that possible, is that something we can

1 discuss privately? Is it something we need to
2 research? I don't want to put you on the hot
3 seat.

4 MR. HUDSON: Something we can
5 discuss privately. I will say that we have
6 through the HEMAP program participated in a
7 moratorium as you heard earlier, the original
8 creation of the program there was a
9 moratorium. But also a moratorium about a
10 year and a half, two years ago in Philadelphia
11 with regard to foreclosures. And again the
12 sheriff stepped up to the table, we were there
13 with HEMAP, not to offer anyone who had not
14 had an opportunity to apply to HEMAP. And
15 what we found out there were a lot of
16 individuals that were not aware of the
17 program. So we did not judge them that they
18 laid out the case so we kind of weighed that
19 portion to allow applicants to come in. I
20 think we would be willing to participate. In
21 terms of capital, I will have to take a look
22 at that what we can do in terms of PHFA.

23 CHAIRMAN DALEY: What we have done
24 we already made a call to Dwight Evans office

1 on this issue that quickly to see what may be
2 appropriated in a special fund. I wondered if
3 there is something that may be available.
4 Would you look at that and please let our
5 committee know?

6 MR. HUDSON: Absolutely.

7 CHAIRMAN DALEY: Also you heard my
8 question also to the Secretary of Banking
9 concerning PSAs. I think there is generally a
10 need of more public awareness of PSAs.
11 Brochures are great, it is so hard to get
12 those brochures out to people that really need
13 to see the brochures.

14 MR. HUDSON: Absolutely.

15 CHAIRMAN DALEY: Has the agency
16 developed I think I have seen some PSAs.

17 MR. HUDSON: Yes, we had had PSAs,
18 right now we are putting together an extensive
19 marketing plan geared toward predatory lending
20 issues which would deal with the sub prime
21 issue. So we will be out there hitting very
22 hard, much harder than you have seen in the
23 past with regard to marketing efforts, and
24 pretty much directing the homeowners to that

1 counseling network. From the counseling
2 network we will see how we can help,
3 absolutely.

4 CHAIRMAN DALEY: Representative
5 Bennington.

6 REPRESENTATIVE BENNINGTON: Have
7 there been years where HEMAP was funded but
8 didn't have enough funds for all of the
9 applicants, and if so, are you requesting any
10 supplemental appropriations?

11 MR. HUDSON: That's a good
12 question. Yes, there were years when HEMAP
13 did not receive any funds at all. And I will
14 give you a snapshot here, for instance, if you
15 go back to '98 which is actually when we
16 implemented the law changes we received no
17 appropriations for '98, '99 through 2003.
18 When Governor Rendell came in this actually
19 occurred in Philadelphia we had a meeting with
20 about 50 advocates and our approval rate at
21 that time was down below 20 percent. I told
22 the Governor we need more funding. And
23 funding was in 2004, \$5 million appropriate,
24 \$8 million in 2005, 10 million 06-07, and as I

1 mentioned we are getting 11 million in the
2 budget for this year. When the program was
3 originally created in 1983-84, the
4 appropriation was 25,750,000.

5 REPRESENTATIVE BENNINGTON: Thank
6 you.

7 REPRESENTATIVE LONGENETTI: Kind of
8 as a follow-up to that response, you mentioned
9 11 million for HEMAP in this budget. What
10 amount did you request, is that --

11 MR. HUDSON: That is what we
12 requested.

13 REPRESENTATIVE LONGENETTI: That is
14 what you requested.

15 MR. HUDSON: The previous year was
16 13. So you see I'm trying to get back to
17 those levels.

18 REPRESENTATIVE LONGENETTI: Do you
19 know whether that amount is enough to cover
20 all applicants for HEMAP?

21 MR. HUDSON: Well, I think the 11
22 million will allow us to do about 3,000
23 applications, as applications arise, we will
24 see about 11, anywhere from ten-five to

1 11,0000 this year. Eligible criteria, no, if
2 we were trying to serve all of them, that
3 wouldn't be enough.

4 REPRESENTATIVE LONGENETTI: On the
5 sub prime mortgage issue, what percentage of
6 sub prime mortgages in Pennsylvania do you
7 believe to be served by HEMAP?

8 MR. HUDSON: Percent of the sub
9 prime mortgages?

10 REPRESENTATIVE LONGENETTI: Right,
11 if you are able to.

12 MR. HUDSON: If the funding was
13 there, that is a key question. If the funding
14 was there, we could probably help everyone.
15 But that level of funding would be somewhere
16 around \$75 million.

17 REPRESENTATIVE LONGENETTI: Do you
18 do you have any estimate what percentage that
19 would cover?

20 MR. HUDSON: For the sub prime
21 mortgages, again if we are talking about sub
22 prime mortgages in foreclosure, you are
23 probably looking at maybe seven, 8,000 loans.
24 We would look at those ones that are in

1 foreclosure first and work our way back from
2 60, 90, 30 days delinquent. We could cut 75
3 percent there.

4 REPRESENTATIVE LONGENETTI: Thank
5 you.

6 CHAIRMAN DALEY: Representative
7 Kotik.

8 REPRESENTATIVE KOTIK: Thank you
9 Mr. Chairman, I'm following up also on
10 Representative Longietti's questions, I'm
11 wondering how you were able to sustain the
12 program during those years when you didn't get
13 any appropriation.

14 MR. HUDSON: Strictly on the
15 repayments, we receive about, in today's
16 market receive 1.4 million monthly in
17 repayments. In '98 the law was changed to
18 require a minimum repayment of \$25 per month
19 per homeowner. As interest rates dropped, we
20 actively go in and try to see what homeowners
21 can be refinanced in the current environment
22 so repayment were about 1.4 and it actually
23 takes about 4.3, 4.5 million administrative
24 costs just to run the program annually. Of

1 that 4.3 million, 1.3, 1.4 actually goes to
2 counseling agencies we pay them to counsel
3 homeowners. Repayment has been the sustaining
4 force there.

5 That was a key question that came
6 up when we did not receive funding in those
7 years. Your number of homeowners you were
8 able to serve drops from 22, 2500 down to
9 1,000 or less than that. And the questions
10 that we were dealing with, is that really a
11 program? But clearly repayment were the
12 sustaining piece there at a million dollars,
13 million four a month, to 12 million continue
14 operating limp along as we say.

15 REPRESENTATIVE KOTIK: Well,
16 looking at the situation we are talking about
17 today, I don't see how 11 million is a
18 realistic figure.

19 MR. HUDSON: Right, and that is
20 clearly what we have been seeing on the
21 advocate side but again it is better than zero
22 more than five not quite enough. So each year
23 I keep coming back and asking for more. I
24 would like to get it back up to the 25 million

1 level quite truthfully.

2 REPRESENTATIVE KOTIK: Thank you.

3 CHAIRMAN DALEY: Representative
4 White?

5 REPRESENTATIVE WHITE: Thank you
6 Mr. Chairman. I want to ask about something
7 you touched on briefly regarding reverse
8 mortgages it was something that grabbed my
9 curiosity. I'm a private practicing attorney
10 and a lot of times I have I do bankruptcy
11 debtor work. One of the things we try to do
12 the very first thing when we face a
13 foreclosure situation in the face, how can we
14 try to avoid it, what can we do, you very
15 eloquently hit on a lot of the problems we
16 have involving getting restatements and things
17 like that. What I have noticed is reverse
18 mortgages which are primarily as you mentioned
19 designed to help senior citizens, it is a
20 product tailored to a population that is
21 unbelievably skeptical to begin with, doesn't
22 necessarily understand, you know, I have
23 people come in bought their house 30, 40 years
24 ago. They would have a hard time handling a

1 traditional mortgage transaction let alone
2 something complicated like different like a
3 reverse mortgage.

4 I wondered if you can maybe explain
5 a little more how exactly that process works
6 and what you would be doing to tailor that to
7 make seniors more comfortable.

8 MR. HUDSON: Yes, as I mentioned we
9 were in the market about 10, 12 years ago we
10 stepped out as a result of more private sector
11 coming in. What I heard over the last couple
12 years in terms of fees being charged up front
13 and then the payout that actually goes to
14 homeowner, how much is being paid has been
15 lowered. So, what we would do, and I can't
16 stress this enough is education, education,
17 education, the homeowner and the family
18 members if there is one key family member
19 needs to be basically go over all the
20 documents.

21 The key with elderly homeowners
22 they have to understand you will not be put
23 out of your home which went back ten years ago
24 was the number one issue. You will not lose

1 your home. Again, we want to work this
2 through the counseling agencies which are
3 community based, many of them CDC right in the
4 neighborhood, faith based groups that the
5 homeowner is very comfortable with, bring it
6 to the table, educate them how to go over this
7 with the homeowner. It is a great product
8 when done correctly.

9 They are very skeptical but we
10 would basically provide an extensive education
11 how it works how many points are charged up
12 front. If you want a monthly amount versus a
13 lump sum payout. In some cases they only want
14 to fix the kitchen, it is not really a
15 critical need to rehab a property. They want
16 a new kitchen. On a personal note, I actually
17 put my grandmother-in-law into one of these
18 and it worked exactly like it was supposed to.

19 She wanted a new kitchen, a new
20 basement, where she spent most of her time.
21 She has since passed away and the heirs got
22 the remaining piece of the property and that
23 is how it should work.

24 What is not being done at the time

1 taken to explain what it is the product to the
2 homeowner. We wouldn't be doing this as a
3 major line of business it just is an
4 alternative product to have for resident that
5 may fit. I'm not expecting a lot of the
6 elderly residents, but we know there is a need
7 given Pennsylvania has a lot of elderly
8 citizens.

9 What I hear is it is not being
10 explained properly, there are a lot of points
11 charged up front. We would take the time to
12 do that along with the counseling partner to
13 make sure it is done correctly. We want an
14 alternative product on the market.

15 REPRESENTATIVE WHITE: Now as a
16 follow-up to that, we talked about predatory
17 practices going on in the mortgage business,
18 do you think that the because it is kind of a
19 separate kind of entity, a specialized
20 product, do you think there are a lot of
21 practices seeping their way into the reverse
22 mortgage business and do you think that is a
23 growing problem as this business, this
24 subsection of the industry grows, do you think

1 that will be a continuing problem, and if so,
2 what can we do to fry to prevent that?

3 MR. HUDSON: Well, I think it is
4 another area that could be focused on.
5 Primarily just feedback I have been hearing
6 from elderly residences and some of your
7 colleagues who reached out to me went through
8 the process with their own family members.
9 So, it is an area that could grow because of
10 population base, what I would like to do is
11 get out in front of it and have an alternative
12 before it becomes another area our residents
13 can be taken advantage of.

14 REPRESENTATIVE WHITE: Thank you
15 very much.

16 CHAIRMAN DALEY: Dave.

17 MR. CALLEN: This may sound like a
18 naive question, you mention going into
19 Philadelphia and finding lots of folks who
20 weren't aware of the HEMAP program, how did
21 they get to foreclosure or close to
22 foreclosure without being notified by lenders
23 that there was a program available?

24 MR. HUDSON: Well, in some cases

1 Act 91 may not have been sent. In some cases
2 they got one and put it aside not
3 understanding what it was. And that's pretty
4 much what we heard from some of the people
5 present.

6 MR. CALLEN: Is there a requirement
7 of some kind that there be, the Act 91 notice
8 be a certified letter or --

9 MR. HUDSON: Absolutely. Supposed
10 to be sent certified registered.

11 MR. CALLEN: If the lender can't
12 demonstrate there is a certified letter, is
13 there a sanction?

14 MR. HUDSON: Pardon?

15 MR. CALLEN: If a lender cannot
16 demonstrate that they properly notified the
17 homeowner of the availability of the program?

18 MR. HUDSON: Then the homeowner
19 would not be held responsible, allow them time
20 to apply.

21 MR. CALLEN: Is there a sanction
22 for the lender?

23 MR. HUDSON: No.

24 MR. CALLEN: Should there be?

1 MR. HUDSON: To allow them to do
2 that?

3 MR. CALLEN: I mean it is a law.

4 MR. HUDSON: It is a law, should be
5 done. That's right, there is no teeth.

6 MR. CALLEN: Enforcement.

7 MR. HUDSON: We should, you know,
8 take a look at fining the lender. What we did
9 on the other end since we didn't have any
10 finding or levy, could not levy any fines, is
11 to waive the homeowner's rights so they can
12 still come in HEMAP. Once we find out it is
13 an issue, the lender said he sent it, there is
14 no evidence you got it, we work with the
15 lender we don't care, if you are in
16 foreclosure, apply to HEMAP. We even allow
17 people to apply for HEMAP who were rejected to
18 apply again so we can take another look at
19 situation. So the moratorium could extend,
20 voluntary is probably a good approach if we
21 can bring sheriffs together to say let's do
22 this.

23 CHAIRMAN DALEY: Brian, thank you
24 very much for your testimony today. I ask if

1 you to check your schedule and see if you are
2 available on Wednesday to possibly review some
3 of this stuff in our office if we could talk
4 to Sandy. Let us know if you are available so
5 we can talk about this privately.

6 Thank you very much for testimony.
7 One more person to testify named John Amrhein,
8 president of West Penn Financial Service
9 Center, Inc., also a representative of the
10 Pennsylvania Association Mortgage Bankers.

11 MR. AMRHEIN: Mr. Chairman, thank
12 you members of the Committee, I'm John
13 Amrhein, I am the immediate past president of
14 the Mortgage Banker Association and current
15 member of their governing board. I'm also the
16 legislative chairman for the Mortgage Banker
17 Association of Pennsylvania and the president
18 of West Penn Financial Service Center, Inc.,
19 mortgage banker licensed by the Pennsylvania
20 Department of Banking located in Pittsburgh,
21 Pennsylvania.

22 Our comments through our
23 legislative regulatory chairman and counsel
24 Bob Levy have been provided to the committee

1 and are included. What I would like to do,
2 the prior industry speakers to me really
3 identified a number of the issues very well.
4 Rather than to be redundant to the committee,
5 I would like to amplify a couple of items
6 relative to their testimony.

7 One thing I think we all come to
8 understand as is that the residential mortgage
9 process is very complex. It is not what it
10 used to be 20 years ago. One of the issues
11 that we look at today is the fact that
12 education and not only education of the
13 consumer, but also education, testing and
14 licensing of individual mortgage loan
15 officers. I do ask the committee to be
16 mindful that currently there are in excess of
17 20 different types of state and federal
18 regulations that govern the manner in which
19 mortgages are originated within this
20 Commonwealth.

21 Additionally, I would ask it be
22 mindful of the Supreme Court case Wachovia
23 Bank which sets forth the preemption of
24 federal institutions, thereby creating an

1 uneven playing field for those companies and
2 individuals that will be licensed by the
3 Commonwealth.

4 Merely legislating a type of
5 mortgage program or product would not
6 necessarily protect the consumer. We believe
7 that it is a free market, and that the market
8 should govern the types of programs and
9 products that are available to the consumers.

10 Simply put, an unethical person is
11 an unethical person, a crook is a crook
12 regardless of the number of regulations that
13 are apparent in an industry.

14 With respect to the group of bills
15 sponsored by the Department of Banking, there
16 are a number of issues that we also echo.
17 With respect to the adjustment to the State
18 Board of Certified Appraisers, we agree and
19 support the request by the Department of
20 Banking.

21 With respect to the changes to the
22 HEMAP program relative to a moratorium, the
23 Federal National Mortgage Association Freddie
24 Mac has identified Pennsylvania as one of the

1 most costly and time-consuming states in which
2 to execute a mortgage foreclosure. We could
3 not and would not support a moratorium on
4 foreclosures.

5 As I stated, we absolutely support
6 the position of the Department of Banking
7 relative to the education, testing and
8 licensure of individual mortgage loan officers
9 within the Commonwealth.

10 We absolutely believe that the
11 education both on an industry side and a
12 consumer side will move the industry forward
13 and having the participants and consumers
14 understand the types of transactions that they
15 enter into today. Thank you.

16 CHAIRMAN DALEY: Thank you very
17 much. Are there any questions from any member
18 of the committee? The staff? Hearing none,
19 thank you very much for your participation.
20 That will be the last testifier today. I
21 think in your packet you have one other
22 additional testimony offered in writing for
23 the Business Network League of Western
24 Pennsylvania, I will be submitting it to the

1 stenographer to be attached as a pen dumb or
2 addendum to this testimony today. Hearing no
3 other questions or comments, this meeting is
4 adjourned.

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I hereby certify that the foregoing is a correct transcript from the record of proceedings in the above entitled matter.

William E. Weber, RDR
Court Reporter