Testimony of Joshua Grant

Banks Committee

February 28, 2008

My name is Joshua Grant. I am a business owner, Bridgeport resident, and am facing foreclosure. I'd like to thank Representative Barry and Senator Duff for the time and energy you have spent on finding solutions to the foreclosure crisis we are facing as a state and a nation. I know that you are proposing HB 5577, and I am here as an ACORN member to testify on that bill, as well as Senate Bill 423.

By and large, HB 5577 is a good bill, but it lacks several critical components that are included in SB 423. We look forward to working with the co-chairs and members of this committee to ensure that whatever legislation passes out of this committee includes all of the following provisions—without which the law will be weak and insufficient:

1) Yield spread premiums must be completely eliminated for all loans, not merely disclosed or regulated. Yield spread premiums are bonuses for brokers who steer borrowers into higher cost loans than they qualify for. Yield spread premiums provide a direct monetary incentive a broker to sell me a loan at 8% even if I qualify for a 6% loan. This practice increases costs homeowners tremendously, increases the number of high cost loans and the likelihood of default, and rewards brokers for predatory lending. I challenge any mortgage broker to stand me and explain why it is fair or just for them to earn a profit by charging a higher interest rate than a borrower qualifies for.

2) pre-payment penalties must be prohibited in all high cost loans, and should conform to Federal Reserve policy for all adjustable rate loans,

whether prime or subprime. Pre-payment penalties trap families and prevent people from refinancing into affordable loan products. Prepayment penalties should be eliminated entirely from all high cost and non-traditional mortgage products. For traditional and prime loans with adjustable rates, we would accept a modest prepayment penalty of 3% in year one, 2% in year two, and 1% in year three—BUT ONLY ON THE CONDITION THAT ANY PREPAYMENT PENALTY WOULD BE WAIVED FOR REFINANCES WITHIN 60 DAYS OF AN INTEREST RATE RESET. This would allow borrowers to maintain affordable payments, and this is consistent with current Fed policy.

3) Flipping – the refinancing of a loan without a net tangible benefit to the borrower—must be banned. It should be illegal to encourage a borrower to default; and it should be illegal for a bank or servicing company to raise the interest rate on a loan as a direct result of delinquency.

4) Negative amortization on a mortgage loan must be prohibited.

5) Brokers should be required to act in the best interest of borrowers. This should be a fiduciary relationship.

6) Low documentation and no documentation loans must be outlawed. All loans must be based on the borrowers ability to repay, based on the fully indexed rate over the life of the loan, including taxes and insurance. Language in this section must include a rebuttable presumption that a borrower was unable to pay if the fully amortized repayment schedule exceeds forty-five percent of the borrowers verified monthly gross income.

ACORN stands firmly committed to the dream of home ownership for all Americans who can afford it. We support banks in their efforts to provide credit for lower income families; but we condemn practices that put a family into a home for two years with no reasonable expectation that the loan will be affordable over the long haul. For brokers who make their money on the front end, there must be strong accountability. For banks and investors who are in this for the long haul, it is far better to offer a product a family will be able to afford and make payments on for 30 years, than to keep families in erratic loan products that cause havoc for families and instability in the market.

There is and will continue to be great pressure from the banking industry, from servicing companies, and mortgage brokers to maintain as much of the status quo as possible. But when the system is broken, it has to be fixed. Allowing brokers to have the final word on these questions is like letting the fox guard the hen house. Our proposals are consistent with the long term interest of homeowners, banks, and investors. What we're dealing with here in most cases are risky loan products, not risky borrowers. We cannot allow mortgage originators to continue selling products that ultimately decimate our neighborhoods by leaving homes vacant and cities blighted.

I ask all members of this committee to work with ACORN on these proposals, and I thank you for your time.