

Dear Senator Durbin:

The undersigned represent a diverse group of consumer, civil rights, labor, retiree, housing, lending and community organizations. We are writing to express our strong support for the Helping Families Save their Homes Act of 2007 (the “Helping Families Act”), which will bring desperately needed assistance to families on the brink of losing their homes because they have received a predatory subprime loan.

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

One important solution to this serious problem is to give consumers on the brink of losing their homes more flexibility to restructure their loans in bankruptcy. The Helping Families Act would permit bankruptcy courts to write down the principal balance of a mortgage loan to the value of the mortgaged property – but to no less than this value. This would ensure that lenders recover at least the value they could obtain through a foreclosure sale, and it would save lenders the considerable cost of foreclosing. By permitting bankruptcy courts to modify the loan in this way, or to modify the interest rate on the loan, the Helping Families Act would eliminate an inequity in the law that currently denies borrowers protections for their primary residence that the law has long granted to wealthier borrowers with respect to their vacation homes or investment properties.

The inability of courts to modify loans on primary residences dates to the enactment of bankruptcy legislation in 1978. At that time, mortgage loans were nearly all fixed-interest rate instruments with low loan-to-value ratios and were rarely themselves the source of a family’s financial distress. This is no longer the case today. Preventing the modification of home loans for primary residences makes no sense in an age of subprime exploding ARMs where the mortgage itself causes financial crisis. Unless bankruptcy courts have the authority to modify such loans at reset, particularly in areas of property depreciation or where there were fraudulent appraisals, hundreds of thousands of families will be unable to keep their homes.

The Helping Families Act would help families to save their homes, without any cost to the Treasury, and ensure that lenders recover at least what they would in foreclosure.

We congratulate you on your leadership on this important issue, and urge the speedy passage of this urgently needed reform.

Respectfully,

AARP  
ACORN  
AFL-CIO  
Central Illinois Organizing Project (CIOP)  
Center for Responsible Lending  
Consumer Action  
Consumer Federation of America  
Consumers Union  
DEMOS  
International Union, United Auto Workers  
Leadership Conference on Civil Rights  
National Association for the Advancement of Colored People (NAACP)  
National Association of Consumer Advocates  
National Association of Consumer Bankruptcy Attorneys  
National Community Reinvestment Coalition  
National Consumer Law Center (on behalf of its low-income CLIENTS)  
National Council of LaRaza (NCLR)  
National Fair Housing Alliance  
National Neighborworks  
National Women's Law Center  
Opportunity Finance Network  
Service Employees International Union (SEIU)