



Mortgage Bankers Association of Hawaii
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March 21, 2011

The Honorable Rosalyn Baker, Chair, and
Members of the Senate Committee on
Commerce and Consumer Protection
State Capitol, Room 229
Honolulu, Hawaii 96813

Re: House Bill 1411, HD 2 Relating to Mortgage Foreclosures

Chair Baker and Members of the Senate Committee on Commerce and Consumer Protection:

I am Rick Tsujimura representing the Mortgage Bankers Association of Hawaii ("MBAH"). The MBAH is a voluntary organization of real estate lenders in Hawaii. Our membership consists of employees of banks, savings institutions, mortgage bankers, mortgage brokers, and other financial institutions. The members of the MBAH originate the vast majority of residential and commercial real estate mortgage loans in Hawaii. When, and if, the MBAH testifies on legislation, it is related only to mortgage lending.

The MBAH strongly OPPOSES HB 1411 HD 2.

We would like to bring to the committee's attention some additional information.

- **Delaying foreclosure only provides false hope.** Today, a borrower faces a foreclosure sale only after failing to make a payment for more than 12 months. During that time, most are residing in the property without making any payments.

To qualify for a government or private loan modification the borrower must show their willingness to cooperate and make consistent agreed upon (with the lender) mortgage payments throughout the delinquency. The government program Homeowner Affordable Modification Program (HAMP) has the borrowers pass through a trial period making payments at the new payment amount. If the borrower is not able to make the payments, then the loan moves on to Short Sale alternatives as it continues toward foreclosure. There is no reason to believe a brief additional time-out will allow such borrowers to become current.

- **The unfortunate reality is that efforts to lengthen the foreclosure process will not substantially alter borrower outcomes.** Data from the Mortgage Brokers Association indicate that loans reaching the foreclosure stage almost always default, and that borrowers who become 90 days delinquent cure their default only about 1% of the time. They will only extend a painful time for borrowers and the economy. During that time, uncertainty will prevent borrowers from moving on with their lives, including starting to pay rent and make purchases that would inject money into the economy.
- **For neighborhoods,** every day without foreclosures means another day of deteriorating home values. A recent study of the Cleveland area published in Urban Affairs Review

found that neighborhood home values are largely unaffected by foreclosures that take less than a year. But foreclosures that take longer than a year have a negative impact on home values as the effects of neglect and vandalism mount, if homes are vacant.

- **For banks**, further delays in the foreclosure process create uncertainty in their balance sheets, potentially blocking channels of credit and undermining lending.
- **California's 90-day moratorium in 2009** did not improve the state's economic performance, and moratoriums in other states would only prove again that a delay can't turn an unaffordable mortgage into an affordable one.
- Although well meaning, a moratorium and mandatory mediation will have unintended consequences. These measures will impede lending as banks and the GSEs will factor this into the interest rates offered on new and refinanced loans, as the length of time to recover their money increases their cost of funds.

We all know how Fannie Mae and Freddie Mac have tightened up their underwriting guidelines in response to the foreclosures. They have increased the number of years that the borrower has to be free of a foreclosure before they can apply for a mortgage loan. Dragging out the foreclosure process will only incent them to tighten further. More homeowners will be shut out of financing options further suppressing recovery. We know we will feel the financial impact of the Japan earthquake and tsunami. We can afford any further dampering to the recovery of our local economy?

MBAH strongly OPPOSES this bill.

Thank you for the opportunity to present this testimony.