Written Statement of Alan M. White on behalf of Jennie Haliburton
Community Legal Services, Inc., Philadelphia

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Thank you for giving Ms. Jennie Haliburton the opportunity to testify about her experiences as a subprime mortgage borrower. I would like to provide some additional information about the details of her loan transactions, her experiences and those of many other homeowners like her in Philadelphia. Subprime foreclosures have been hurting low-income Philadelphia homeowners and neighborhoods for ten years. Now that the pain has spread to more affluent homeowners and investors on Wall Street, the problem is in the news.

Ms. Haliburton has a 2/28 subprime ARM from Countrywide, made in April 2006. Her loan application included full documentation of her $1,766 monthly Social Security income. On that basis, Countrywide gave her a loan with an initial payment of $922.24 for principal and interest. Countrywide did not establish an escrow for taxes and insurance, which are about $180 monthly. However, after the first year of the loan, Countrywide notified Ms. Haliburton that they will increase her payment to include past and future taxes and insurance as of May 2007. She will therefore have a payment increase even before her interest adjusts.

Her initial payment is based on a discounted interest rate of 9.625%. The fully indexed rate is LIBOR plus 6.5%, which today equals 11.9%. The payment and rate will adjust in May 2008, when her monthly payment, with taxes and insurance, will be nearly $1300, which is more than 70% of her income. These facts were fully known to Countrywide, but not understood by, or explained to, Ms. Haliburton.

Countrywide refinanced a 2004 Ameriquest loan. That loan had a fixed rate of 8.7%. Copies of both Notes, and the Countrywide application, are attached.

This was not a credit repair product. Ms. Haliburton's income and property value will not increase fast enough to permit her to refinance. Her loan has a prepayment penalty that lasts for two years, until the adjustable rate feature is triggered. Ms. Haliburton is not in foreclosure yet; she has made her mortgage payment her first priority, but it is only a matter of time.

I have contacted Countrywide's loss mitigation staff and have not yet received a response. They now have two choices. They may decide to foreclose on this home, and perhaps they can recover the full $108,000 after evicting Ms. Haliburton. Or they can write down the loan amount so that she can either afford her payments, or get a reverse mortgage.

Because of Ms. Haliburton's age, income and equity, a reverse mortgage would have been a much more suitable product, and could have been recommended to her in either 2004 or 2006 when she contacted Ameriquest and Countrywide. A reverse mortgage would allow her to pay off her prior debts and have no current payment obligations, allowing her to use her Social Security for home repairs and maintenance and living expenses.

Before subprime lending came along, the same homeowners had plenty of access to credit. They bought homes with FHA and VA loans. If Mr. and Mrs. Haliburton had bought their house in 1987 instead of 1997 they would have had an FHA mortgage. Philadelphia homeowners paid for repairs with small loans from finance companies.

In the last ten years, a real estate broker seeing a low-income buyer has had a choice. Refer them for an FHA mortgage, where the property will be inspected, the loan carefully underwritten, and the process will take several months, and some applicants actually get turned down. Or, the broker could refer the buyer to a subprime lender or broker, where approval is quick and easy. The price is higher, but so what? Bad underwriting and loan products have pushed out good underwriting and loan products. This is not a reason to make FHA more like subprime; the point is to restore common sense underwriting to all mortgage sectors.

Subprime loans are not a bridge to credit repair, they are a road to foreclosure. In Philadelphia county, 40% of all subprime loans made in 1998, 1999 and 2000 were in foreclosure by the end of 2003, according to the Pennsylvania Banking Department's foreclosure study. Ms. Haliburton doesn't need more access to $100,000 mortgages. She needed suitable credit products she can afford, and now she needs Countrywide to do the right thing and write down her loan balance.