

Loan Modification Can Stop the Foreclosure Crisis

Change bankruptcy law to keep people in their homes.

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This week the House Judiciary Committee approved legislation aimed at helping Americans keep their homes through bankruptcy.

I introduced the Helping Families Save Their Homes In Bankruptcy Act of 2009 to give courts the power to modify mortgages to bring them in line with underlying home values. For families in distress, this is a much-needed reform. And considering the realistic alternatives, it is fair to all concerned.

I have been working on this bill for nearly two years. I believe it represents one of the most tangible and productive steps we can take to limit the fallout from the real-estate depression that has been sweeping the nation. While it is not the entire answer to the economic crisis, it is a common-sense and practical approach to stopping a downward spiral where foreclosures also depress nearby home values and thereby hurt other homeowners. This spiral is not helping anyone -- not homeowners, not lenders, and certainly not communities.

Some argue that we are acting too quickly, and that we should delay my legislation to give homeowners and lenders more time to modify the terms of existing mortgages on a voluntary basis outside of bankruptcy.

But the evidence shows that such modifications don't work. For one thing, many of the servicers who control the mortgage loans claim they are not legally permitted to agree to voluntary modifications. And even when they are legally permitted to agree, their financial incentives are stacked in the direction of foreclosure.

As a result, the much-vaunted federal "Hope for Homeowners" program launched in October has been only a limited success. The program is supposed to facilitate new mortgages for homeowners if lenders agree to reduce the amount of money owed on a home to 90% of its assessed value. The program went into effect with the goal of helping hundreds of thousands of homeowners. To date, it has processed less than 400 applications.

To those who claim that my bill will end up harming consumers by increasing the cost of credit, I would respectfully suggest that they are not taking account of the track record of the modern-day bankruptcy code.

For more than three decades, the bankruptcy code has permitted the very kind of court modification we are considering today, for every other form of secured debt, including loans secured by second homes, investment properties, luxury yachts, and jets. For over 20 years, this very kind of modification has been available for home mortgages already -- if the home is a family farm. There is no indication that this has in any way increased the cost of credit for any of these kinds of loans.

As for my legislation, we have narrowed it to apply only to existing mortgages. So it will have no effect on new mortgages and cannot impact their cost. This is one reason why Citigroup is now among the many business and consumer groups that support this proposal. It's also one reason why the Obama administration supports my bill.

Finally, to those who argue that this legislation constitutes some form of "moral hazard," which will encourage reckless borrowing in the future, I would simply ask them to come to Detroit, my home town.

Detroit has had more than 100,000 foreclosures over the past three years. And the pace doesn't seem to be letting up. The city has an average of 126 foreclosures a day. Block after block, "for sale" and foreclosure signs feed off of each other, driving down home values, uprooting families, decimating communities, and causing local tax revenue that pays for police and firefighters to plummet. We don't have the luxury of worrying about hypothetical future moral lessons. We need to stop the bleeding today.

What is happening in Detroit is also happening across the country. Communities in Arizona, California, Florida, Massachusetts, Nevada, Ohio and elsewhere are all facing big foreclosure problems.

If we can spend \$700 billion to bail out the brokers on Wall Street, the very least we can do is allow working Americans who are willing to repay their debts as best they can, under court supervision, the dignity of staying in their homes. With one in 10 homeowners behind on their mortgages, and 10 million foreclosures expected over the next several years, the time for meaningful action is now.

Mr. Conyers, a Democrat from Michigan, is the chairman of the House Judiciary Committee.