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ROBO-SIGNING: SYMPTOM OF MORTGAGE SERVICERS' LAWLESS ATTITUDE THAT PUSHES HOMEOWNERS INTO FORECLOSURE

WASHINGTON, D.C. – The “robo-signing” scandal that has exposed illegal practices by servicers of mortgage loans has also showed the urgent need to reform a broken system that is plagued with abuses, lacks adequate resources and has pushed countless homeowners toward foreclosure.

That’s the message that Diane Thompson, a lawyer for the National Consumer Law Center, delivered in testimony Tuesday to the Senate Committee on Banking, Housing and Urban Affairs.

“The lack of restraint on servicer abuses has created a moral hazard juggernaut that at best prolongs and deepens the current foreclosure crisis and at worst threatens our global economic security,” Thompson said.

“Recent exposures of robo-signing and lack of ownership documentation by servicers have taken the wraps off a servicing system that has failed homeowners, investors and our society,” Thompson said. Basic flaws in that system include repeated failures to service loans, account for payments, limit fees to those that are reasonable and necessary, and provide loan modifications even when they could serve investors and allow homeowners to avoid foreclosures and evictions.

“Servicing abuses cause much of the pain and losses being endured by millions of Americans in a crisis in which homeowners face foreclosures at triple the rate of 1933, at the height of the Great Depression,” Thompson said.

Thompson submitted written testimony that included 14 pages of detailed recommendations for reforms that would improve the servicing system and make loan modifications available to homeowners who might otherwise lose their homes.

Key reforms would include:

- Modifications must be available prior to setting in motion the expensive and traumatic machinery of foreclosure.
- Principal reductions must be available through bankruptcy or participation in the Making Home Affordable (HAMP) and other government programs.
- Homeowners must be able to contact and speak with a representative of their servicer with the information and authority to modify their loan, and to enforce their rights through mediation and in court with legal representation.

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- Modifications should be mandatory when they can be shown to benefit investors as well as homeowners, and servicers must be required to seek waivers when investors' rights block otherwise beneficial modifications.
- Servicing arrangements must be made more transparent, regularly reviewed by regulators and limit normal and default fees to reasonable amounts.

“The foreclosure crisis has inflicted immeasurable pain on America,” Thompson said. “Congress must provide some urgently needed relief by reforming the servicing system and clearing the way for homeowners who might otherwise lose their homes to get loan modifications.”

For more information, or to arrange an interview with Diane Thompson, contact Rick Jurgens at 617-226-0334. Thompson's testimony is posted on-line at www.nclc.org/images/pdf/foreclosure_mortgage/mortgage_servicing/testimony-senate-banking.pdf.

The National Consumer Law Center is a non-profit organization that seeks marketplace justice on behalf of vulnerable Americans. NCLC works with, and offers training to, thousands of legal-service, government and private attorneys, as well as community groups and organizations representing low-income families. Our legal manuals and consumer guides are standards of the field. Learn more on our Web site: <http://www.nclc.org>

FOR IMMEDIATE RELEASE: Nov. 16, 2010