

**Testimony of Lorry S.C. Brown  
On Behalf of the Michigan Advocacy Project (MAP)**

**House Committee on Banking and Financial Services  
House Bill 5176**

Chairman Knollenberg and members of the House Committee on Banking and Financial Services, thank you for the opportunity to testify today. I am Lorry Brown, the statewide foreclosure prevention specialist at Michigan Poverty Law Program.<sup>1</sup> Michigan Poverty Law Program is the statewide back-up center for legal services programs. I am here today on behalf of the Michigan Advocacy Project. The Michigan Advocacy Project (MAP) is a joint project between the Michigan League for Human Services (MLHS) and the Michigan Poverty Law Program (MPLP). MAP advocates on behalf of the state's low-income population on issues in the areas of low-income housing, family law, consumer protections, and foreclosure prevention.

I have previously testified on behalf of the Michigan Advocacy Project (MAP) in support of the Substitutes for House Bills 4542, 4543 and 4544. Today, I am here on behalf of MAP opposing HB 5176. HB 5176 shortens the redemption period from 6 months to 3 months for loans commonly referred to as "portfolio loans." On behalf of the Michigan Advocacy Project, we simply cannot support HB 5176.

Since the foreclosure crisis began in 2008, no state has enacted a law designed to speed up its foreclosure process. During the past three years, state legislatures and courts around the country have worked diligently to come up with creative ways to help homeowners avoid foreclosure. In over twenty-four states, including Michigan, the legislatures and courts have created new options for homeowners to participate in various types of mediation or pre-foreclosure negotiation programs.<sup>2</sup> Within the pre-foreclosure structure homeowners and lenders can explore mutually beneficial alternatives to foreclosure.

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<sup>1</sup> As the statewide foreclosure specialist, I direct the Michigan Foreclosure Prevention Project, a project of the Michigan Poverty Law Program. The Michigan Foreclosure Prevention Project is a collaborative statewide project involving all the major legal services programs. The goal of the Project is to provide comprehensive and coordinated foreclosure prevention advocacy throughout the state by 1) providing direct legal representation to homeowners facing foreclosure, 2) providing support to housing counseling organizations, 3) coordinating policy advocacy on a statewide basis, and 4) providing training and technical support.

<sup>2</sup> A listing of current foreclosure mediation programs and links to texts of relevant state laws and court orders may be found at the National Consumer Law Center website: <http://www.nclc.org/issues/foreclosure-mediation-programs-by-state.html>. See also Alon Cohen and Andrew Jakobovics, *Now We're Talking, A Look at Current State-Based Foreclosure Mediation Programs* (Center for American Progress June 2010), at [http://www.americanprogress.org/issues/2010/06/foreclosure\\_mediation.html](http://www.americanprogress.org/issues/2010/06/foreclosure_mediation.html).

The pre-foreclosure process inevitably creates some additional delay extending a state's pre-existing foreclosure timeline. Yet, since the foreclosure crisis began, no state has even considered changing its basic foreclosure laws in a way that would effectively leave homeowners worse off than they were before the crisis. HB 5176 does precisely that. Its sole purpose is to speed up foreclosures and the evictions of homeowners and their families.

The argument for HB 5176 is that somehow small community banks and credit unions should be protected. The reason to protect small community banks and credit unions is that they allegedly work with the homeowners upfront so we should reward them by reducing the redemption period on the bank end. First, there is no hard data that supports this position. There might be anecdotal stories from the small banks' perspectives. But there are also anecdotal stories to the contrary. There are stories where a small bank or a credit union generally takes a hard line policy and not offer a loan modification and insist on payment plans that are not affordable.

In addition, this argument fails since the reduction of the redemption period is not tied to the sunset provision in the Substitute House Bills 4542 and 4543. This is a permanent reduction. After 2015, homeowners will not have the benefit of the 90-Day law on the front end or the benefit of a 6-month redemption period. Additionally, homeowners who do not opt-in the 90-day pre-foreclosure process also will lose 3 months of a redemption period.

Second, carving out exemptions based on loan type is a slippery loan that opens the gate for exempting other types of loans. Where do you draw the line? On What basis? Further, as the Michigan Foreclosure Task Force representative will testify, this is also fundamentally unfair to homeowners.

The purposes of the redemption period is to give homeowners a realistic period of time within which to seek alternative financing to pay the sale price and keep the home. The homeowner may also sell the property during the redemption period. With the benefit of a longer period to sell the home, the homeowner is much more likely to payoff the lender and potentially recovers any equity lost at the sale.

Finally, another argument in support of HB 5176 is that a shorter redemption period for the small banks and credit unions will allow these banks to prevent homes from being destroyed and losing value. Again, there is no data to support this position. No one has done empirical studies of how redemption laws affect home retention or whether redemption laws contribute to deteriorated or destroyed homes. The arguments about dire effects of redemption laws are not based on empirical studies, just anecdotes. The consumer advocates can similarly provide anecdotal information as to the positive outcome of a favorable redemption period. Any reduction of the redemption period because of these falsely perceived arguments will harm homeowners and will continue to wreak havoc on our neighborhoods.

At a time when most states and the federal government are developing policies to keep homeowners in their home, through this bill, Michigan is trying to get homeowners out of their homes sooner. It does not matter if this bill is targeting a smaller group of homeowners. The impact will still be the same – some homeowners will be kicked out of their homes sooner.

By reducing the redemption period, the intent is clearly to get homeowners out of their homes sooner. This destabilizes neighborhoods because the homes now will be unoccupied and may stay unoccupied for a long period. HB 5176 heads in the opposite direction of what is taking place nationally. Shortening the redemption period makes the problem worse, not better.

MAP therefore cannot support legislation that is aimed at having homeowners lose their homes at a faster rate and destabilize neighborhoods.

Thank you.

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