

April 3, 2006

Secretary Alphonso Jackson  
Department of Housing and Urban Development  
Washington, DC

Dear Secretary Jackson,

We, the undersigned consumer, community, civil rights and humanitarian organizations, wish to express our strong support **that important consumer protections be included as part of any plan to spend Community Development Block Grant funds for housing recovery in Mississippi and Louisiana.** Specifically, we believe that payments to homeowners with mortgages should be made jointly to the mortgage company and to the homeowner, with certain protections ensured for the homeowner.

After a "normal" catastrophic event, a homeowner makes a claim to the insurance company who certifies the claim and makes payment jointly to the homeowner and lender. Lenders and borrowers then release funds as work is completed. This is established practice across the country and protects the rights and interests of consumers, mortgage companies, contractors and insurers.

We understand that mortgage companies' intentions are to secure the property that secures their loan, not necessarily to protect the consumer from fraud. However, we believe that in these cases this arrangement produces significant consumer protections. Contractors, who after a catastrophe have more work available than they possibly could handle, have the ability to demand up-front payments from consumers to secure services. By having a bank or mortgage company stand behind the consumer and make it clear that full payment will be made only when work is properly completed, the consumer and the mortgage company have their security protected. In effect, this is a case where the interests of the borrower and lender are uniquely aligned. This is particularly true when properties will need to be rebuilt to new, higher standards.

This is not to say, of course, that these arrangements are always executed without problems. Of course there are times when we are required to advocate on behalf of consumers because of mortgage company practices in this area. However, the process in general insulates the consumer from predatory practices from contractors, who are often minimally regulated. Further, because this is such a long and well-established practice, the "rules of the game," industry norms and procedures, are well known and advocates can take action when necessary. Accordingly, we believe that joint payments to the mortgage company and the homeowner would be better for consumers.

Any plan providing for such joint payments should include the establishment of requirements to ensure that practices similar to those employed for regular insurance payouts are employed. Administration of the funds also should provide that consumers are not required to advance any personal funds to a contractor prior to a mortgage company releasing initial funds for rebuilding and mortgage companies should be required to provide for approval of expenditures and contractor selection within a reasonable time. Consumers have been concerned that CDBG funds will be used to pay off their mortgages rather than for rebuilding. Where a consumer has entered into a workout with the mortgage company that provides for the repayment of deferred payments, the entire amount of the CDBG payment should be applied toward rebuilding.

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CDBG funds should not be used to bring those loans current, nor should they be used in those instances for payment of late fees or other amounts incurred during the six months following the disaster. Where a loan is not yet in a workout or where the consumer in a workout is again delinquent, mortgage companies should be required to take reasonable steps to cure these

delinquencies before applying any CDBG funds to bring the loan current. Where borrowers choose to refinance with a different mortgage company, the CDBG funds should travel with the borrower to the new company.

We strongly encourage the inclusion of a homeowner counseling component to the CDBG recovery program. Efforts to include counseling for finance and construction issues would significantly enhance consumers' abilities to make informed decisions about the use of CDBG funds for rebuilding.

We understand that concerns have been raised that this may not be an optimal process for fear that the National Environmental Policy Act could be triggered and so delay funding. We urge HUD to utilize any waiver authority it has in this case. With up to \$150,000 being given to thousands of consumers for home-repairs, people will be in significant jeopardy of being taken advantage of by unsavory players in the market.

While we focus in this letter on the specific question of how CDBG payments will be made, we continue to support prioritizing the needs of low and moderate income renters and homeowners in determining how funds should be apportioned. As is required under the CDBG program, funds should be allocated to affirmatively further fair housing and protect the rights of those who may experience discrimination in housing, mortgage lending, and homeowners insurance markets, particularly as it relates to race, national origin, and disability. In addition, substantial local efforts will be necessary to prevent and prosecute fraudulent home improvement contracting. The homeownership recovery centers being proposed by the state should be a key component of this effort.

We urge you to act immediately to communicate your preference to officials in Mississippi and Louisiana so that the best plans can be presented to HUD that will protect consumers, move funding quickly and promote re-building in the region. Thank you for your attention to this matter. Please contact Alys Cohen, Staff Attorney at the National Consumer Law Center, at 202-452-6252 with any comments or concerns.

Sincerely,  
Catholic Charities USA  
Center for Responsible Lending  
Consumer Federation of America  
Consumers Union  
Enterprise Corporation of the Delta  
Mississippi Center for Justice  
Mississippi State Conference NAACP  
NAACP  
National Association of Consumer Advocates  
National Community Reinvestment Coalition  
National Consumer Law Center  
National Fair Housing Alliance  
Oxfam America

cc: Mississippi Development Authority