Testimony of Kerry Smith, Community Legal Services, Inc.
before the Pennsylvania House Commerce Committee

"What comes next...the impacts of the COVID crisis"

September 15, 2020

Chair Delozier, Democratic Chair Galloway, and members of the Committee, I appreciate the opportunity to testify today on the way in which the coronavirus pandemic and the resulting economic crisis have impacted Pennsylvania consumers, and the role that consumer protections in the financial services sector can play in stabilizing consumers' finances and fostering economic recovery.

I am an attorney with Community Legal Services, which provides free, civil legal services to low-income residents of Philadelphia, as well as technical assistance and training to legal aid programs throughout the Commonwealth. My practice is in the homeownership and consumer rights unit of CLS, where we represent and advocate for clients dealing with legal issues related to mortgages, debt collection, and predatory, high-cost loans.

Even before the COVID-19 outbreak, CLS clients, along with other Pennsylvanians, were facing financial challenges. In 2018, more than a quarter of all Pennsylvanians had a debt that was in collection on their credit report.[1] And while foreclosures were down from their height during the subprime mortgage crisis, 22,678 new residential mortgage foreclosures were filed in our state courts that same year.[2] Today, COVID-19 has had a significant impact on the financial stability of families across the Commonwealth, with over 2.1 million Pennsylvanians filing unemployment claims.[3] COVID-related stimulus payments and pandemic unemployment assistance have provided supplemental income to qualifying individuals, but those benefits have expired and people are falling behind on their bills.

---

[1] *Debt in America: An Interactive Map*, Urban Institute, available at: https://apps.urban.org/features/debt-interactive-map/?type=overall&variable=pct_debt_collections (28% of Pennsylvanians with debt in collections).
[2] 2018 Caseload Statistics of the Unified Judicial System of Pennsylvania, available at: http://www.pacourts.us/assets/files/setting-768/file-8222.pdf?cb=2e094c
[3] *Unemployment Compensation Claim Statistics & COVID* 19, Pennsylvania Department of Labor and Industry, available at: https://www.uc.pa.gov/COVID-19/Pages/UC-Claim-Statistics.aspx

Center City Office: 1424 Chestnut St. | Philadelphia, PA 19102-2505 | Telephone: 215-981-3700 **clsphila.org**

North Philadelphia Law Center: 1410 West Erie Ave. | Philadelphia, PA 19140-4136 | Telephone: 215-227-2400

According to data from the Mortgage Bankers Association, the national delinquency rate for residential mortgages surged to 8.22 percent of all outstanding mortgage loans as of June 30, 2020.[4] The rate of seriously delinquent loans—loans overdue by 90 days or more-- increased to 3.72 percent, the highest rate since 2010.[5]

Right now, we are in the equivalent of the eye of a hurricane, the calm before the coming foreclosure and debt collection storm. Government action and court closures have stayed the collection and filing of new foreclosures as well as many student loan and other debt collection actions, but moratoriums are ending and court activities are resuming.

We need strong consumer protections to provide a lifeline to struggling Pennsylvanians. Consumer protections will provide not only critical relief to vulnerable individuals and families, but also the support our economy needs for a strong recovery. With consumer spending fueling more than two-thirds of our nation's economy, consumer protection and economic recovery are inextricably linked. Keeping consumers in their homes, with the income they need to buy basic necessities and invest in their local communities are the tools we need to weather this storm together.

The Commonwealth has a critical role to play in reducing the COVID-19 economic shocks, and I have outlined below policy recommendations in three priority areas of consumer financial services.

Help Homeowners Avoid Foreclosure

Quick action at the federal and state level have helped ensure housing stability during the first few months of the COVID-19 crisis. The federal CARES Act, and subsequent agency guidance, imposed a foreclosure moratorium on FHA, VA, USDA, Fannie Mae and Freddie Mac mortgages through the end of the year. In addition, borrowers of these federally-backed mortgages may request a forbearance, or pause on their payments, for up to 360 days. However, there has been no similar forbearance protections put in place for the 30% of mortgages that are not federally-backed. Governor Wolf, through Executive Order, imposed a moratorium on the filing of most residential mortgages in the Commonwealth, but the Order expired earlier this month.

Fortunately, in May, the General Assembly created the Pandemic Mortgage Assistance Program (PMAP), through $25 million of federal coronavirus relief funds, for homeowners who have fallen behind on their mortgages due to unemployment or a drop in income related to COVID-19. PMAP is an important supplement to Pennsylvania's existing, successful ongoing mortgage assistance program,

---

[44] *Press Release,* Mortgage Bankers Association, available at: https://www.mba.org/2020-press-releases/august/mortgage-delinquencies-spike-in-the-second-quarter-of-2020
[5] *Id.*

HEMAP, but some of the program requirements of PMAP have made it difficult for homeowners to access the needed funds. We encourage the passage of legislation, SB 1290, that would address these issues and encourage more mortgage companies to participate in PMAP and address issues in the companion Rental Relief Program. Currently, the PMAP program is required to stop accepting new applications on September 30, just 15 days away, therefore swift passage of this legislation, which would also extend the application deadline, is critically important for homeowners and renters.

We also encourage the legislature to enact a forbearance program, similar to the CARES Act, for all residential mortgages in Pennsylvania. A forbearance period would allow struggling borrowers the opportunity to maintain their housing -- a critical protection during a pandemic— and gain the time necessary to stabilize their finances so they can resume mortgage payments.

Provide Relief and Protection for Student Loan Borrowers

Long before COVID-19, we were in the midst of a student loan crisis, with roughly 45 million Americans burdened with $1.68 trillion in student loan debt, and over a quarter of borrowers behind on their loans. The COVID-19 crisis could deepen the crisis. The federal CARES Act suspended payments on 80 percent of federal student loans through September 30, 2020, but more than nine million borrowers with commercial Federal Family Education Loans (FFEL), Perkins loans, and private loans were left without payment relief. Fortunately, here in Pennsylvania, as part of the budget package signed into law on May 29, the General Assembly provided relief for borrowers of private student loans that are owned by the Pennsylvania Higher Education Assistance Agency (PHEAA).[6] With these federal and state payment relief programs set to expire on October 1, 2020, additional action is needed to ensure ongoing, immediate assistance to struggling borrowers. In addition, student loan borrowers need protections to ensure that student loan servicers enroll them in repayment plans that best meet their needs. Any federal student loan borrower who qualifies for free legal services with CLS is entitled to a repayment plan with a $0 to $25 monthly payment, and qualify for complete loan forgiveness after 20 years. Yet, we routinely see clients seeking legal help because their limited Social Security benefits they need to pay for rent, food and medicine have been garnished for defaulted student loan debt. Our clients' experiences reflect a major, systemic failure in student loan servicing. To address it, we urge the legislature to enact the bipartisan Student Borrower Bill of Rights, HB 2360, which would establish licensing and oversight of student loan servicers and a Student Loan Ombudsman to advocate for borrowers. Effective management of student loan debt burdens is an essential economic recovery tool for the COVID-19 crisis.

---

[6] *Press Release,* Pennsylvania Higher Education Assistance Agency, available at: https://www.pheaa.org/about/covid-19-pheaa.shtml

Pause Debt Collection and Protect Limited Income and Assets

For decades, debt collection has topped consumer complaints filed nationwide, and the COVID-19 crisis has exacerbated the problem. The federal CARES Act provided no relief for borrowers facing collection of credit card debt, installment loans, or car loans. For a time, Pennsylvania residents were granted some reprieve with court closures, but collectors once again are flooding our courts with lawsuits to collect on debts, many of which were sold by original creditors to debt buyers for pennies on the dollar. Court judgments and resulting bank account garnishments to collect on those judgments can leave individuals and families without enough money to pay for food, medicine, rent, utilities, and other basic needs, which is critical not only for their benefit but also the economy as whole. Consumers need opportunities to preserve key income and assets while they recover financially. We urge the legislature to put a pause on the most aggressive forms of debt collection during the emergency disaster declaration period for the COVID-19 pandemic and for 120 days afterward. Specifically, debt collectors should be prohibited from repossessing a consumer's vehicle, garnishing wages from a bank account, or enforcing another security interest for a consumer debt during this limited period. In the long-term, the legislature should consider improved protections for consumers with limited income and assets.

COVID-19 has created an unprecedented public health and economic crisis. We believe these modest consumer protections will help get Pennsylvania families, businesses, and the economy back on their feet. Thank you for the opportunity to discuss these issues with you today, and we look forward to working together to address the impacts of COVID-19.