BOSTON COMMUNITY CAPITAL

Building Healthy Communities Where Low-Income People Live and Work

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AURA MORTGAGE ADVISORS

56 Warren Street - Palladio Hall
Boston, MA 02119-3236
Phone: 617.427.8600
Fax: 617.427.9300
www.bostoncommunitycapital.org

November 25, 2013

The Honorable Senator Elizabeth Warren
317 Hart Senate Office Building
United States Senate
Washington, DC 20510

Dear Senator Warren,

Congress should take up and pass an extension of the Mortgage Forgiveness Debt Relief Act (MFDRA) before it expires at the end of this year, and I hope you can lead the way before thousands of families suffer.

Passed at the height of the foreclosure crisis, the MFDRA allows struggling homeowners to secure a new mortgage with a reduced or forgiven principal without having to pay taxes on the difference. Under normal tax rules, such a reduction in principal would be treated as ordinary income subject to tax, even though the money being taxed is "phantom income" that exists only on paper – homeowners walk away from a principal reduction with no cash payout. That results in a large immediate tax bill that is not affordable to homeowners who are already struggling to make mortgage payments with limited income and have often depleted what savings they had.

As you know, five years after the burst of the housing bubble, thousands of homeowners are still struggling to make payments on predatory loans and inflated mortgages. Many of these homeowners lost jobs in the ensuing recession and have never financially recovered. Our collective failure to adequately guard against what proved to be a speculative and often fraudulent housing market has left them facing foreclosure and homelessness. Foreclosures remain endemic in low-income communities, and these communities in turn are being economically hammered by these foreclosures, which leach tax revenue from local governments and consumer spending from neighborhood businesses.

Here at Boston Community Capital, we have had success in mitigating this crisis through our Stabilizing Urban Neighborhoods (SUN) Initiative. The program has kept more than 450 Massachusetts families facing foreclosure in their homes and recently expanded into Maryland. It uses privately-raised funds to buy troubled homes from lenders at fair market prices. We then sell the homes back to the original homeowners with mortgages they can afford, at an average reduction of almost 40 percent from the "bubble" price.

Everyone wins, as the original lenders get fair prices for homes that are going to be sold at a foreclosure price regardless, and borrowers get to keep their homes with affordable mortgages. Thanks to thorough underwriting, a mandatory set-aside for maintenance costs, and ongoing borrower support, nearly all of our borrowers remain current on payments.

However, this program and others like it would be severely hamstrung by failure to renew the Mortgage Forgiveness Debt Relief Act.

If the MFDRA is not renewed, homeowners who could have avoided foreclosure through the SUN Initiative will have difficulty participating in the program. That's taking us in the wrong direction on this issue. The original motivations for passing the MFDRA still apply, as this crisis is not over. There were 133,919 new foreclosure filings in October alone, the most recent period for which RealtyTrac foreclosure data is available. Now is not the time for us to make it harder for families and communities to put their financial lives back together.

Please consider extending the MDFRA and preventing this counterproductive tax penalty from affecting so many families.

Best,

Elyse D. Cherry

Elyse D. Cherry
CEO