

February 28, 2005

The Honorable Michael Oxley  
Chairman  
House Financial Services Committee

The Honorable Barney Frank  
Ranking Member  
House Financial Services Committee

Dear Chairman Oxley and Ranking Member Frank:

We, the undersigned organizations, are writing to express our support for strong policies to address predatory lending in the subprime mortgage market. During recent years, responsible mortgage lenders and consumer advocates have recognized the urgent need to curb abusive lending practices that harm homebuyers and homeowners. When the Committee considers this issue, we respectfully urge you to ensure that any legislation supplements existing law by promoting four basic objectives:

- **Elimination of incentives for lenders to make predatory loans;**
- **A fair, competitive market that responsibly provides credit to consumers;**
- **Access to justice for families caught in abusive loans; and**
- **The preservation of essential federal and state consumer safeguards.**

**First, the subprime market now rewards lenders and brokers who charge homeowners excessive points and fees.** Homeowners typically don't pay these fees in cash. Rather, they borrow more to cover the costs, resulting in inflated loan balances. Many in the industry are not concerned with a borrower's ability to make monthly payments, because the broker or lender can quickly sell the loan on the secondary market. Originators profit from fees collected at the time of closing, so they focus on volume and make as many loans as possible. Many lenders and brokers repeatedly refinance loans, making thousands of dollars from each origination. The fees financed for each transaction drain wealth from homeowners, who see their home equity decrease rather than grow over time.

**Second, a large segment of the subprime market operates to prevent qualified borrowers from receiving favorable credit terms.** Up to 80% of subprime home loans contain burdensome prepayment penalties that can cost families thousands of dollars when they refinance or pay off their loans early. These are not provided in exchange for lower interest rates; they are simply another method of stripping home equity. Moreover,

yield spread premiums encourage brokers to sell loans at interest rates higher than the rates for which borrowers qualify, and the market is not transparent enough for homeowners to shop effectively for better deals.

**Third, industry has used its market power to limit homeowners' access to justice.**

Most subprime mortgage contracts require homeowners to give up their rights to go to court if any legal problems arise from their loans. All too often, families facing foreclosure because of abusive loans find they have no recourse through the court system. Furthermore, many cannot defend their homes because their loans have been sold into the secondary market without legal accountability.

**Fourth, any new law to curb predatory mortgage lending must preserve and strengthen existing federal and state protections for homeowners.** Current law contains certain essential consumer protections designed to address some of the egregious practices of the predatory mortgage industry. Because market flaws lead to a wide range of abuses that may vary from one region to another, coalitions of individual citizens and of diverse organizations have successfully fought for effective reforms at the state and local level.

Incentives in today's subprime mortgage market encourage the stripping of home equity wealth through fee-packed loans. Abusive subprime practices also trap homeowners in over-priced loans and contribute to an epidemic of foreclosures. We are open to effective solutions to these problems based on the principles outlined here. We look forward to working with you on this critical issue, and we appreciate your time and consideration.