Oppose H.R. 1077: Congress Should Not Create New Incentives for Abusive Lending

Fact Sheet *April 2013*

Mortgages with High Fees Were a Key Part of the Subprime Lending Crisis:

"The [2/28 and 3/27] loans came with big fees that got rolled into the mortgage, increasing the chances that the mortgage could be larger than the home's value at the reset date."
-- *Financial Crisis Inquiry Commission, January 2011*

"Yield spread premiums are complex and may be counter-intuitive even to well-informed consumers…The Board's consumer testing indicated that disclosures about yield spread premiums are ineffective. Consumers in these tests did not understand yield spread premiums…"
-- *The Federal Reserve Board, September 1, 2010*

H.R. 1077 is a Throwback to the Subprime Lending Crisis:

A new House bill would weaken a key mortgage reform by allowing loans with excessive fees to improperly meet the Qualified Mortgage definition. Qualified Mortgage loans are intended to benefit borrowers because they are restricted from having risky features such as high origination fees, balloon payments and interest-only payments.

H.R. 1077 would exempt fees like yield spread premiums from the 3 percent points and fees limit for loans meeting the definition of a Qualified Mortgage. These new loopholes would lead to more expensive loans for borrowers.

Many borrowers were trapped in mortgages with deceptively high origination fees during the subprime lending crisis, and these inflated costs disproportionately impacted African-American and Latino borrowers. Instead of learning from the recent crisis, H.R. 1077 would create new opportunities to increase loan fees in the future.

Congress Should Not Create Loopholes for Yield Spread Premiums and Other Fees:

Yield spread premiums, which are payments made to mortgage brokers through increasing a loan's interest rate, are complicated transactions. As a result, borrowers often do not understand if they are paying a competitive price, resulting in higher origination costs.

Creating a points and fees exception for yield spread premiums and other fees will result in more borrower confusion and more expensive loans. This would create new incentives for abusive lending.

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