



Common-Sense Solutions to the Subprime Foreclosure Crisis Support H.R. 3915

CRL Legislative Brief

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The issue: Massive foreclosures on subprime mortgages.

What's at stake: The financial well-being of all Americans. Before the subprime crisis is over, 2.2 million families will lose their home to foreclosure. Families who get subprime loans pay too much because of abusive fees and kickbacks to mortgage brokers. Even homeowners who can make their mortgage payments are losing money due to the decline in their property values that is exacerbated by the foreclosure epidemic. The economic damage resulting from reckless subprime lending continues to spread through local, national and global markets.

The solution: Restore sound lending practices to the subprime market—practices that responsible lenders have always used. Eliminate perverse incentives that encourage subprime lenders to engage in the same abusive practices in the future. Help families stay in their homes.

Bill to support: H.R. 3915, the “Mortgage Reform and Anti-Predatory Lending Act of 2007,” sponsored by Rep. Brad Miller, Rep. Melvin Watt, and Chairman Barney Frank.

Overview: The bill includes reasonable provisions to stop common abusive lending practices in the subprime market.

Key provisions:

- Strengthens broker duties to consumers and licensing requirements.
- Requires subprime lenders to determine whether the borrower has the ability to repay the loan—something responsible lenders have always done.
- Prohibits abusive loan flipping—serial refinances that provide no net tangible benefit.
- Bans subprime prepayment penalties and limits these penalties on prime loans.
- Bans subprime yield-spread premiums (legal kickbacks to mortgage brokers) and other incentive compensation that increases with more expensive loans.
- Prohibits negatively amortizing loans to first-time homebuyers who haven't received counseling.

But this bill needs strengthening: Legal remedies for victims are unclear and may not stop abuses. The bill needs stronger incentives to discourage lenders from making abusive loans and Wall Street from funding them. Currently, the bill preserves the rights of states to pass stronger protections if necessary. This is significant, because states are able to act more quickly to address local situations or changing market conditions. But on both of these crucial issues, there are threats to the bill. **Your support should stress that the bill can only work if it is strengthened, not weakened. Support H.R. 3915 without overriding state laws, and with effective legal remedies for victims of abusive loans.**