



Friday, March 02, 2007

National Groups Thank Regulators for Proposing Stronger Standards for Dangerous Subprime Loans

The devastating reign of "exploding" adjustable-rate mortgages (ARMs) in the subprime market may soon be over. Today federal banking and credit union regulators proposed to clamp down on these risky loans by requiring depository institutions to do more careful assessments before approving these loans for credit-strapped consumers. Exploding ARMs, which begin with a fixed "teaser" interest rate for two or three years and then switch to an escalating adjustable rate, are the most common type of loan in the subprime market, and they have been linked to an alarming increase in foreclosures on subprime home loans.

The regulators' proposal follows guidance they issued last September to address risks on "exotic" or "non-traditional" mortgages, such as interest-only loans and loans that allow homeowners to vary their payment amounts each month. That guidance urged lenders to carefully manage the higher risk associated with these loans through prudent underwriting, such as considering a borrower's ability to repay the debt. The current proposal would specifically extend these types of underwriting standards to subprime hybrid mortgages. Regulators are allowing 60 days for comments after the proposal is published in the Federal Register.

As reflected in the following statements, many leaders and organizations throughout the nation applaud this action by federal regulators:

David P. Sloane - Senior Managing Director, Government Relations and Advocacy

AARP: "This important guidance will help protect borrowers from some of the most egregious predatory home loans. It is time to reform the system that victimizes homeowners, including fixed-income older persons, who are overwhelmed with exploding loan costs after low teaser rates. AARP appreciates this action by the federal banking regulators, as well as the leadership of Senate Banking Committee Chairman Chris Dodd and House Financial Services Committee Chairman Barney Frank. We hope that the full Congress will provide more consumer protections against predatory lending practices."

Maude Hurd - ACORN National President: "The steering of subprime borrowers into ARMs is one of the biggest predatory practices today, with three out of every four subprime borrowers being given these ARMs that quickly become unaffordable after just two or three years. In the best case, these loans merely result in the loss of equity when homeowners refinance and have to pay new closing costs and prepayment penalties. In the worst case, which unfortunately is all too common, these loans costs families their homes. We applaud the regulators and Chairmen Dodd and Frank for their work to protect homeowners from these abusive lending practices."

Kevin Stein - Associate Director, California Reinvestment Coalition: "Brokers and lenders are aggressively selling hybrid ARMs that some consumers do not understand and that they cannot afford to repay. We must stop this assault on homeownership and the working family. Today's announcement is a step in that direction."

Martin Eakes - CEO, Center for Responsible Lending: "This is an important step toward a return to sensible lending. Subprime loans comprise only 13 percent of outstanding mortgages, but they contribute over 60 percent of foreclosures—and the vast majority of subprime loans today are exploding ARMs. I want to thank FDIC Chairman Sheila Bair, Federal Reserve Chairman Ben Bernanke, OTS Director John Reich, Comptroller John Dugan, and NCUA Chairman JoAnn Johnson for sending a clear signal that they will not tolerate irresponsible lending practices that put families' homes and wealth at undue risk. I'd also like to thank Chairmen Chris Dodd and Barney Frank for their continuing efforts to ensure that all homeowners receive loans that are sustainable, rather than set up to fail."

Kerwin Tesdell - President of the Community Development Venture Capital Alliance and Chair of the Board of the Coalition of Community Development Financial Institutions: "These regulatory changes are an important step in curbing the abuse of subprime lending. They provide much-needed protection for the homes and wealth of lower-income families across the nation."

Allen Fishbein - Director of Housing and Credit Policy, Consumer Federation of America: "Consumer Federation of America commends federal banking regulators for proposing new guidance to encourage the sensible underwriting of subprime loans. Soaring delinquencies and defaults in this market have put millions of borrowers at risk of losing their homes. Many hybrid subprime ARMs were made without considering whether borrowers could afford the loans after low initial "introductory" rates expired. Regulators already have acted to stiffen standards for interest-only mortgages and certain other exotic loan products with built in payment shocks. Today's proposal seeks to provide comparable protections for subprime loans. We encourage quick action by the regulators."

Wade Henderson - President of the Leadership Conference on Civil Rights: "The civil rights community applauds the Federal Banking and Credit Union Regulators' decision to follow Freddie Mac's lead in setting safer standards for home mortgage loans. These new standards are an important safeguard against predatory lending practices. They will allow low income borrowers to continue to finance homes but help prevent them from losing them."

Hilary O. Shelton - Director of the NAACP Washington Bureau: "Given the disproportionate number of racial and ethnic minority Americans who are victims of predatory loans, any action to regulate or otherwise curb these transactions is welcome news. Thus the NAACP is pleased to hear that the banking regulators have agreed to clarify their earlier guidance to say that subprime hybrid ARMs are subject to the same underwriting standards as non-traditional mortgages. This, along with the announcement by Freddie Mac earlier this week that it will no longer buy some types of predatory mortgages that have been pushing millions of homeowners into foreclosure, are positive steps forward. The NAACP will continue to push other powers that be, including the United States Congress, to also take necessary steps to stem the scourge of predatory lending."

Ira Rheingold - Executive Director, National Association of Consumer Advocates: "This proposal affirms the lenders' responsibility to evaluate the affordability of loans they approve. If implemented, this will represent a victory for consumers, and an important step in addressing the current epidemic of foreclosures in the subprime market."

John Taylor - President & CEO, National Community Reinvestment Coalition: "We applaud the regulators for expanding the guidance in recognition of the pain that these loans have caused many people."

Willard P. Ogburn - Executive Director of National Consumer Law Center: “Unaffordable loans are a lynchpin in the current mortgage market. We applaud the regulators for their proposal to consider a borrower’s ability to repay a loan. We hope policymakers will recognize that full underwriting for affordability is an essential requirement in a fair and functioning market.”

Shanna L. Smith, President & CEO, National Fair Housing Alliance: “The National Fair Housing Alliance views these policy changes as promoting fair housing because persons in protected groups are disproportionately affected by these high risk lending practices. The immediate impact for the homebuyer will be extremely beneficial – real estate agents will market homes to buyers in their true price range rather than collaborating with brokers using teaser rates to push families into more expensive homes, thereby getting higher commissions for the agents and the brokers. These new policies will make the sales and lending industries sell homes and make loans that are financially suitable for the buyer.”

Mark Pinsky - President & CEO, Opportunity Finance Network and Chairman, Opportunity Mortgage Network: “This guidance should help protect homeowners from billions of dollars in losses, reduce the damage that predatory lending is doing to the economy, and send a clear message that lending done right is an asset for everyone. It will help put the mortgage markets back on a sound course and keep rightful homeowners where they belong—in their homes.”

Rev. Jesse L. Jackson, Sr. - President & Founder, Rainbow PUSH Coalition: “Today, regulators righteously required mortgage lenders to practice what they preach—providing equal opportunity for sustainable home ownership for all. Lenders must listen and take heed their creed.”

Ed Mierzwinski, Consumer Program Director, U.S. PIRG: “Subprime lenders have had strong incentives to market harmful “exploding” ARMs, with devastating results for vulnerable consumers. We commend the regulators for a proposal that will help straighten out an industry that has lost sight of the basic underwriting practices that lead to both sustainable profits and sustainable homeownership.”

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About the Center for Responsible Lending

[The Center for Responsible Lending](#) is a nonprofit, nonpartisan research and policy organization dedicated to protecting homeownership and family wealth by working to eliminate abusive financial practices. CRL is affiliated with [Self-Help](#), one of the nation’s largest community development financial institutions.