August 9, 2007

Board of Governors of the Federal Reserve System
Attention: Jennifer J. Jackson, Secretary
20th Street and Constitution Avenue
Washington, DC 20551

Dear Members of the Board:

We, the undersigned consumer, community and civil rights organizations, urge the Board to use its rulemaking authority under HOEPA to address abuses in the mortgage market.[1] Congress has provided the Board with the responsibility to prohibit unfair or deceptive acts or practices in connection with mortgage loans, including refinancing practices that are abusive or otherwise not in the interest of the borrower. The current crisis in the subprime mortgage market requires strong action.

Last year, homeowners suffered over one million foreclosures, more than a 40 percent increase from the previous year. As of the end of the first quarter of 2007, over five percent of subprime loans were in foreclosure and another eight percent were over 90 days delinquent. For over a decade, abuses in the subprime market have been undermining the efforts of hardworking families to acquire and retain the dream of homeownership. For many, it is their only source of wealth accumulation. The importance of this issue is magnified in communities of color; more than half of African-American and 40 percent of Latino families who received home loans in 2005 received subprime mortgages. Accordingly, it is incumbent upon the Board to restrict abuses, at least in the subprime market, and give homeowners the ability to directly protect their homes.

Specifically:

- **The Board should ban prepayment penalties**. Research indicates that borrowers do not receive an interest rate benefit for such provisions. Moreover, prepayment penalties are disproportionately associated with loans to people of color, and to loans that result in foreclosure.

- **The Board should require escrowing for taxes and insurance.** Subprime lenders generally do not escrow and this often results in borrowers receiving the unwelcome surprise of higher mortgage costs than expected. Failure to escrow also is associated with expensive and unfair force-placed insurance.

[1] Many of the undersigned groups are submitting separate, more specific comments as part of this process. This letter is intended to convey our united and urgent request for the Board to undertake significant action to protect homeowners.

- **The Board should prohibit "stated income" or "low doc" loans.** Higher priced loans without income verification have become a standard practice in the subprime market. Many of these loans are made to borrowers who can provide documentation, and therefore obtain loans that are truly affordable for them. In fact, many prime lenders already use alternative forms of documentation to allow for underwriting for a wide array of consumers. Creditors should be required to use the best and most appropriate form of documentation.

- **The Board should require that creditors originate loans where the borrower has the ability to repay the loan under the terms of the contract.** For too long, loan originations have been based on the assessed risk to the creditor and the investor. The borrower's risk must be front and center in this analysis.

- **The Board should prohibit yield-spread premiums or, at a minimum, clarify that lenders who pay yield-spread premiums are liable for broker acts and omissions.** In today's marketplace, mortgage brokers originate nearly three-quarters of all subprime loans. The perverse incentives of yield-spread premiums encourage brokers to steer borrowers to higher-rate loans than they qualify for and, in some cases, to add prepayment penalties that lock them into those loans. This practice places the interests of brokers in direct conflict with the interests of their clients. Banning yield-spread premiums on subprime loans would eliminate this conflict of interest and thus eliminate some of the unfairness associated with subprime lending.

We appreciate the Board's examination of its own role in addressing abuses in the mortgage market. We look forward to a strong and comprehensive set of rules under the Board's HOEPA authority.

Sincerely,

Association of Community Organizations for Reform Now (ACORN)
Center for Responsible Lending
Central Illinois Organizing Project (CIOP)
Consumer Action
Consumer Federation of America
Consumers Union
Lawyers' Committee for Civil Rights Under Law
National Association of Consumer Advocates
National Community Reinvestment Coalition
National Consumer Law Center
National Fair Housing Alliance
National NeighborWorks Association
National Urban League
U.S. Public Interest Research Group