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Ms. Jennifer J. Johnson
Secretary, Board of Governors of the Federal Reserve System,
20th Street and Constitution Avenue, N.W.
Washington, DC 20551
regs.comments@federalreserve.gov

In re: Federal Reserve Board HOEPA Hearing (Chicago, June 7, 2006)

Dear Ms. Johnson,

Please accept for consideration these comments submitted in connection with my testimony at the Federal Reserve Board's HOEPA Hearing held in Chicago on June 7, 2006.

I am the Supervisory Attorney of the Home Ownership Preservation Project (HOPP) of the Legal Assistance Foundation of Metropolitan Chicago (LAF). LAF is the largest provider of civil legal services in the Chicago metropolitan area. The specific project that I supervise, HOPP, is the largest provider of legal services to low-income Chicago-area homeowners facing foreclosure. Most of our clients are the victims of predatory lending practices committed by subprime mortgage brokers and lenders. HOPP is also active on the policy front. In 2003, we were instrumental in passing Illinois' HOEPA-based anti-predatory lending law, the Illinois High-Risk Home Loan Act. This year, we worked closely with the Illinois Attorney General to enact the Mortgage Rescue Fraud Act, a law targeting foreclosure equity-stripping scams which represent the newest wave of predatory lending.

While I believe it is vital that states and localities be allowed their full power to regulate against predatory lending practices, I applaud the Federal Reserve Board for realizing that it, too, must remain vigilant in taking action and in suggesting additional action to Congress to curb the related problems of predatory lending and historically high foreclosure rates. This is especially true as federally chartered lenders and their subsidiaries increasingly claim exemption from the reach of state and local laws.

I will limit my comments herein to the problem I focused on in my oral testimony: the problem of "stated income" (a/k/a "no doc" or "reduced doc" or "doc lite") loans, as that particular underwriting practice has spread through (and, in my opinion, infected), the universe of subprime lending.

From my experience, and from the collective experience of other LAF attorneys who have represented subprime borrowers over the past ten years, the single most prevalent feature of predatory lending is the falsification of borrower income--and the single greatest boon to the falsification of income is the use of stated income loans. Originally created to help self-employed borrowers with irregular income qualify for loans that might otherwise be out of their reach, stated income loans play no legitimate role in the world of subprime lending. They are a recipe for disaster, and a virtual invitation to fraud (hence the common usage of the term "liar loan" to denote stated income loans as they are used in the subprime market).

One of our recent cases serves as a telling illustration. A 79-year-old widow of diminished mental capacity was issued a loan (by a national bank). The broker faked her income, but a document in the file indicated that the lender knew (or should have known) better. Who wouldn't, really, given the numbers on the Uniform Residential Loan Application: a 79-year-old woman was supposed to be making \$7,000 a month as a "housekeeping supervisor"? In fact, our client made \$700 a month as a part-time housekeeper in a nearby home. Based on the fake income, our client got a loan for \$140,000 and promptly defaulted. (A family member, possibly conspiring with the broker, took cash out of the loan and disappeared.) Needless to say, it was a stated income loan. (Fortunately, our client was lucky enough to make her way to us, and we were able to resolve her case; relatively few homeowners are that fortunate.)

While this may be among the most egregious cases we've seen, it is not an isolated example. We regularly see inflated borrower income, and it usually involves a stated income loan. Almost by definition, the borrower is put into a loan he or she cannot (or soon will not be able to) afford. The fragmentation of the subprime mortgage marketplace simply does not protect against this common form of abuse. Brokers are too highly incentivized to push loans, and there is little due diligence on the part of lenders, who still, for the most part, profit nicely based on the high volume of loans issued.

There is little if any place for stated income loans in the subprime market. As with other looser and more creative loan products and underwriting policies, the use of stated income loans, originally developed for prime borrowers, wreaks havoc when used in the subprime mortgage market. We would therefore urge action in this area, including taking whatever steps are within the power of the FRB, as well as recommending further appropriate steps to Congress.

Thank you for your consideration of these comments, and for the opportunity to testify at the June 7 hearing.

Sincerely,



Daniel P. Lindsey
Supervisory Attorney
Home Ownership Preservation Project
Legal Assistance Foundation of Metropolitan Chicago