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# United States Senate

WASHINGTON, DC 20510-3204

March 30, 2007

The Honorable Ben S. Bernanke  
Chairman  
Federal Reserve Board  
20th Street and Constitution Avenues, N. W.  
Washington, D.C. 20551

RE: Docket No. OP-1278

ATTN: Jennifer J. Johnson, Secretary  
Board of Governors of the Federal Reserve System

Dear Mr. Chairman:

Earlier this month the Federal Financial Institutions Examination Council (FFIEC) offered proposed guidance that would ostensibly provide stricter guidelines for subprime lending. I applaud the FFIEC for taking this step and I welcome the opportunity to comment. It is clear that prompt action is needed to protect borrowers, and to ensure that lower and moderate income families continue to have access to home ownership.

The recent housing statistics are worrying: delinquencies are up, foreclosures are up, home prices are down, and home sales are down too. To make matters worse, the rates on more than a million subprime adjustable rate mortgages are escalating this year, and another 800,000 will escalate next year. The Federal Deposit Insurance Corporation acknowledged to the Senate Banking, Housing and Urban Affairs Committee that the current problems may only be the tip of the iceberg. The problems in the subprime market are affecting millions of Americans and now threaten to harm our economy. Defaults and foreclosures in one segment of the mortgage market could drive lenders to tighten credit standards across the board. This would make it harder for first-time homebuyers to obtain mortgages, and it would exacerbate weakness in the housing market. All of this bodes poorly for consumer spending, and ultimately, for the economy. The situation is grave, and we must act.

I recently announced an initiative to address the crisis in the subprime mortgage market. I proposed that independent and face-to-face financial counseling be made available to borrowers before they take out mortgages, and to homeowners at risk of foreclosure. Second, I proposed limiting the length of time for which prepayment penalties apply, and prohibiting prepayment penalties on mortgages with rates above a certain level. Third, I proposed strengthening the *Truth in Lending Act* and existing federal regulations to ensure that there is plain-talk, no-fine-print disclosure. Too often lenders are not upfront about what is lurking in the details. Fourth, I called for "foreclosure timeout." We need to create incentives for lenders to identify troubled

mortgages and to work out solutions with borrowers to avoid foreclosure. Finally, I have reintroduced the *21<sup>st</sup> Century Housing Act* to strengthen the Federal Housing Administration's (FHA) mortgage insurance program. FHA loans should be available to more Americans. These loans are a responsible and stable alternative to the subprime market.

The federal regulators have proposed strengthening underwriting standards, curtailing the issuance of reduced documentation loans, and requiring clearer disclosure of loan terms. I support the broad objectives of the proposed guidance. Going forward, we also need to ensure that the regulations cover non-bank and non-traditional lenders who originate a significant portion of the riskiest subprime mortgages. We must also ensure that the appropriate regulators have the ability to effectively enforce these rules as well. Home ownership is the greatest source of wealth accumulation for average Americans, and all responsible families should have an opportunity to participate. We should take greater steps to ensure that regulators not only have the authority but the responsibility to end the deceptive and irresponsible lending practices that drew people into adjustable rate mortgages and other hybrid loans they could not afford when the rates adjusted upwards.

The problems in the subprime lending market have been gathering for years. I fear that regulatory oversight has been lax and too many lenders were irresponsible or unscrupulous. Families and communities are now paying the price. I urge the regulators to take prompt and careful action to ensure that the abuses of the last few years do not recur.

Thank you for your attention to these issues.

Sincerely yours,

Hillary Rodham Clinton