

RICHARD CORDRAY
OHIO TREASURER of STATE



(614) 466-2160 • 30 E. Broad Street, 9th Floor • Columbus, Ohio 43215-3461

August 9, 2007

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, D.C. 20551

Re: Docket OP-1288: Comments Due August 15

Dear Ms. Johnson:

As Ohio's Treasurer, and as a member of Governor Strickland's Foreclosure Prevention Taskforce, I have seen first-hand how the crisis of home foreclosure has touched all corners of Ohio. With few exceptions, almost every one of our 88 counties has recorded an increase in foreclosure filings from 2005 to 2006. In some cases, those increases have been dramatic.

As a recent article in the *Chicago Tribune* illustrated, greater disclosure alone will not keep borrowers from experiencing the problems that can come from some lending practices. The *Tribune* noted a study completed by the Federal Trade Commission that asked recent home buyers to decipher basic elements from standard home closing disclosure forms. The results were dismal. This is why the Federal Reserve must utilize its rulemaking authority to ensure that homebuyers do not fall into a mortgage product that traps them in an unsustainable situation.

I applaud you for taking this opportunity to examine the Home Ownership and Equality Protection Act and the crucial issues for many of our homeowners of: (1) prepayment penalties; (2) nonpayment of escrow for taxes and insurance on subprime loans; (3) the appropriateness of stated income loans; and (4) the unaffordability of some loans with teaser rates.

In Ohio we find that, in general, the sooner a borrower understands his or her situation and seeks to refinance out of an adjustable rate loan, the better are the chances to save the home. Prepayment penalties are a significant barrier that keeps families from successfully refinancing to products with dependable monthly payments they can afford. Because these prepayment penalties benefit lenders at the expense of long-term homeownership, they must be prohibited.

As a former county treasurer who was charged with collecting property taxes, I can tell you that the growing practice of not escrowing for taxes and insurance on many loans, including subprime loans, sets up many homeowners for failure. Better practice would be to provide for such escrow, recognizing that defaults on these issues can cause foreclosures as well.

We have had a very unpleasant experience in Ohio recently with stated income loans. They are ripe for abuse and are not appropriate in any circumstances. We believe that this laxness in lending practices has contributed significantly to the foreclosure crisis we now face.

We know that adjustable rate mortgages can make sense in certain circumstances. Yet they also can serve – and frequently have served – as a means of making loans and selling homes that are entirely inappropriate to the homebuyer. Loans with teaser rates should be curbed by requiring such loans to be shown to be "suitable" to that borrower, and the underwriting of such loans should occur against a backdrop of whether the borrower can be shown to be likely to sustain full payment of its terms over the long term, and not just the introductory period.

Homeownership is rightly called the American dream. But short-term homeownership has become a nightmare for many, leading to the loss of the home, the ruin of their credit, and a resulting situation where they are left far worse off than they would have been without all this supposed "help" from others. These abusive practices adversely affect our local communities. Not only the foreclosure victims themselves, but also many steady and honest homeowners who are located nearby, are suffering the consequences of longstanding regulatory neglect.

I appreciate your time to review my concerns and I strongly urge you to act to clean up the mortgage products and features that lure many families into bad loans and then unjustifiably hinder their ability to seek relief from their plight.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard Cordray". The signature is written in a cursive, flowing style.

Richard Cordray
Ohio Treasurer

Cc: All members of Ohio's Foreclosure Prevention Taskforce
All members of Ohio's Congressional delegation