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STAFF DIRECTOR AND
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U.S. House of Representatives
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

December 13, 2007

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The Honorable Ben S. Bernanke
Chairman
Board of Governors of the Federal Reserve System
20th & C Streets, NW
Washington, DC 20551

Dear Mr. Chairman:

We understand that the Board is now preparing proposed rules under the Home Ownership and Equity Protection Act to protect mortgage borrowers from unfair and abusive practices. These long-overdue rules are needed to help eliminate the kinds of predatory lending practices that exacerbated the current subprime lending crisis, and will also help protect the safe and smooth functioning of our financial system. As the recent credit market volatility shows, consumer protection is closely tied to reducing systemic risk, not at odds with it. When a large number of consumers are put into loans they cannot afford, the defaults reverberate throughout the global capital markets affecting large numbers of people and institutions who were not involved in the mortgage underwriting process. Individual neighbors and communities along with pension funds, corporate debt markets and central banks, are all affected.

Over the last year, the House Financial Services Committee has held a number of hearings on these issues and passed several pieces of legislation designed to minimize the current crisis and ensure that it does not happen again. During this process we have identified a number of lending products and practices you should address. In particular, we ask that the new rules:

- Prohibit Prepayment Penalties for Subprime Loans and require that any remaining prepayment penalties be limited in size and duration (e.g., 3-2-1) and expire at least 3 months before an interest rate reset.
- Require Realistic Underwriting of the borrower's ability to pay a mortgage (not just for the initial "teaser period" but for the entire term). Prudent underwriting also requires a verification of income or assets necessary to repay the loan including the likely taxes, insurance and fees.
- Eliminate Perverse Incentives to steer consumers into more expensive loans. For example, by prohibiting originator compensation that varies according to the terms of the mortgage, and promulgating rules that eliminate abusive and discriminatory lending practices.

- Improve Disclosures so that consumers can (1) fully *understand* the material terms of their loans; and (2) better compare costs and terms among different loans and loan originators.

We are encouraged that the Board is taking these initial steps toward reforms that we hope will be meaningful and lasting improvements to mortgage lending.

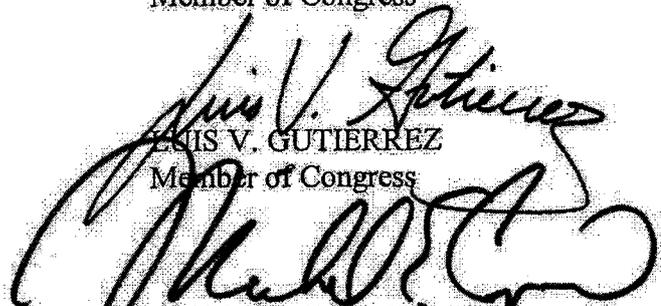

BARNEY FRANK
Chairman

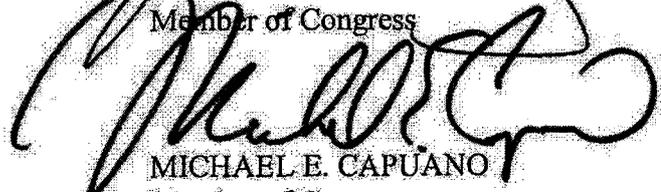

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Member of Congress

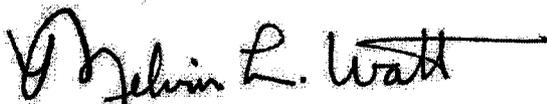

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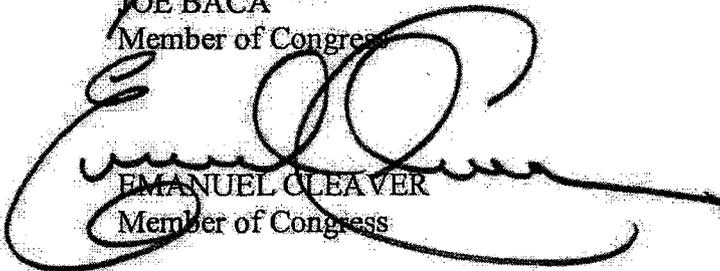

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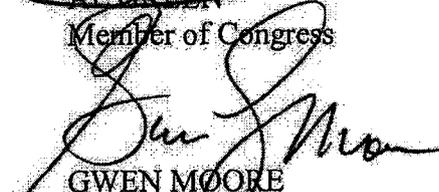

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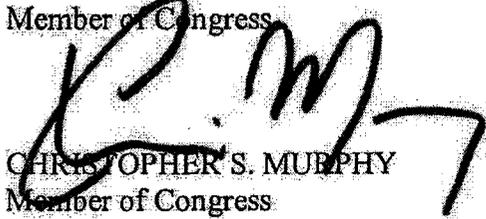

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