

Congress of the United States
Washington, DC 20515

May 15, 2007

The Honorable Ben Bernanke
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Chairman Bernanke:

As Representatives of Congressional Districts that have been disproportionately affected by foreclosures, we are writing to express our concern regarding problems that have developed over the past year in the sub-prime mortgage market, particularly those created by predatory and abusive lending practices. Additionally, we are writing to request that the Federal Reserve Board use its authority under the Home Ownership Equity Protection Act of 1994 (HOEPA) to issue rules that prohibit unfair and deceptive practices with home mortgage loans.

As you know, due to historically low mortgage rates, rising home prices, and increased liquidity in the secondary mortgage market, the United States experienced a tremendous housing boom from 2001 to 2006. While positive economic factors increased home ownership rates, they also led to the growth of the sub-prime mortgage industry and created opportunities for predatory lending in which unscrupulous lenders have hidden the true cost of sub-prime loans from vulnerable borrowers.

Over the past few months, it has become increasingly clear that irresponsible sub-prime lending practices have contributed to a wave of foreclosures that are harming homeowners and rattling the housing market. According to the Center for Responsible Lending (CRL), an estimated 1 in 5 sub-prime loans issued in 2005 and 2006 will default.

Although predatory loans and foreclosures are a nationwide concern, sub-prime mortgage loans are most prevalent in lower-income neighborhoods with high concentrations of minorities. Research shows that African American and Hispanic borrowers are 30 percent more likely to be steered into the higher-rate, sub-prime loan market than other borrowers with the same qualifications. In 2005, for instance, 53 percent of loans to African Americans and 37.8 percent of loans to Hispanics were placed in the sub-prime market.

While there have been House and Senate hearings to investigate the growing crisis of sub-prime mortgage loans, we believe that regulators play a vital role in the process. We are concerned that current regulatory oversight has not kept pace with deteriorating credit standards or the growth of unfair and deceptive lending practices.

We believe furthermore, that the Federal Reserve Board should use its broad authority under HOEPA to issue regulations that address the problem of predatory lending. HOEPA expressly states that:

The Board, by regulation or order, shall prohibit acts or practices in connection with (A) mortgage loans that the Board finds to be unfair, deceptive or designed to evade the provisions of the section; and (B) refinancing or mortgage loans that the Board finds to be associated with abusive lending practices, or that are otherwise not in the interest of the borrower. *15 U.S.C. § 1639 (L) (2)*

HOEPA clearly mandates action by the Federal Reserve Board. The Board's use of its authority under the statute is crucial to stemming the tide of predatory lending because any promulgated regulation would apply to both bank and non-bank lenders.

To address this crisis and to provide important protections, we urge the Board to use its authority under HOEPA to take the following minimum steps:

- Require lenders to establish a borrower's ability to repay over the life of the loan prior to making a mortgage loan;
- Restrict the use of low- and no-documentation loans;
- Increase disclosure of alternative mortgage products;
- Reduce or eliminate the initial fees and prepayment penalties;
- Designate the failure to escrow taxes and insurance as an unfair and deceptive practice;
- Identify brokers and lenders with high rates of foreclosure; and,
- Mandate pre-loan counseling.

This does not represent an exhaustive list. However, quick and decisive action on these items by the Federal Reserve Board under its mandated HOEPA authority would extend important consumer protections to homeowners and buyers. Moreover, these comprehensive remedies would require that all lenders operate under the same rules.

Chairman Bernanke, we are encouraged by the fact that the Board will be holding a June 14 hearing under HOEPA to gather information on how best to use its rulemaking authority to curb abusive lending practices in the home mortgage market. We look forward to reviewing the results of the hearing.

Thank you for your consideration of this important issue.

Sincerely,

~~Elijah E. Cummings~~
Member of Congress

~~Donna M. Christensen~~
Member of Congress

~~Yvette D. Clarke~~
Member of Congress

~~Charlie Gonzalez~~
Member of Congress

~~Sheila Jackson-Lee~~
Member of Congress

~~Barbara Lee~~
Member of Congress

~~Vaztes P. Moran~~
Member of Congress

~~Linda T. Sánchez~~
Member of Congress

~~David Scott~~
Member of Congress