Subject:	Regulation Z

Date:	Apr 08, 2008
Proposal:	Regulation Z - Truth in Lending
Document ID:	R-1305
Document Version:	1
Release Date:	12/18/2007
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Comments:

Commentary Federal Reserve Board Regulation-Z Truth-In-Lending Proposal R-1305 NeighborWorks® Western Pennsylvania would like to congratulate the Federal Reserve Board for its strong proposal to enhance consumer protections under the Home Owners Equity Protection Act (HOEPA Proposal R-1305), and would like to offer its support for the measure. Homeowners in low-income communities have refinanced purchase-money mortgages with expensive subprime loans at an alarming rate. In some Pittsburgh neighborhoods over half the mortgage credit delivered in the past decade was originated by subprime lenders, and as many as seventy-percent of those loans were refinance transactions. Locally, the subprime mortgage market was born and fed on refinance transactions that should have been covered under a tighter HOEPA standard. Unrestricted access to mortgage capital through subprime loans has not been a positive experience for low-income communities. Foreclosures, highly concentrated in these neighborhoods, have skyrocketed and families that might have succeeded as homeowners using affordable credit may now be frozen out of the American dream for years to come. Clearly, better management of capital delivery to traditionally underserved communities is a desirable goal. Requiring income verification and ensuring the borrower's capacity to repay a loan are welcome, common sense measures. Using stated-income or no-income loans to provide financing to people who could not actually afford to repay the debt became the most widespread and egregious mortgage industry practice over the past decade. There should never be any circumstance where a borrower is knowingly given a loan that they cannot afford to repay. The need to prevent this practice becomes increasingly acute for lower income borrowers who have and continue to comprise a large segment of the population receiving “high-cost” loans. Lowering the margin thresholds to trigger a “high-cost” classification under HOEPA would serve as a de facto rate cap for most mortgage lending. Fannie Mae and Freddie Mac currently do not purchase “high-cost” loans and that position has been widely adopted by most large mortgage investors. Without a secondary market outlet for these loans it will be impossible for lenders to offer them. In the short term this may lead to a capital shortage to low-income neighborhoods as subprime credit ceases to be available. However, this may provide an opportunity for banks and other higher quality institutions to re-establish themselves as lenders in neighborhoods where ‘no questions asked’ terms were endemic. In order to qualify for loans borrowers with poor credit would have to address their past debts before obtaining new ones. Income verification will ensure that only borrowers who can truly afford to repay their loans are receiving them. It is likely that under these new standards fewer individuals will qualify for mortgage credit. We have heard concerns that these regulations may prevent capital from reaching low-income communities, potentially re-redlining neighborhoods that have been underserved by high-quality lenders. It is appropriate to point out that the unrestricted, undocumented lending that had been occurring in these communities did not serve as a wealth-building tool. Instead, it locked entire neighborhoods into debt that exceeded the value of the collateral properties securing it, trapping borrowers in usury without the ability to seek relief by selling the home. Community lending will have to reach some middle ground, where credit worthy individuals with substantiated income will have the opportunity to borrow from responsible lenders willing to work within reasonable lending guidelines. Fewer borrowers will qualify for loans, but fewer families will have to suffer the cruelties of a foreclosure on a loan that they were never truly qualified for in the first place. This process may be painful in the short term, but making good quality loans to borrowers who have taken responsibility for their financial health would be a desirable long-term effect. The Federal Reserve Board’s proposal to expand and strengthen the protections offered under HOEPA has the potential to encourage a safe and stable lending environment in all communities. These are wise steps that may help prevent a recurrence of the mortgage delinquency and foreclosure crisis that we are currently experiencing in the United States. NeighborWorks® Western Pennsylvania offers the Federal Reserve Board its strongest encouragement to move quickly to adopt this proposal. Sincerely, Greg Simmons Chief Operating Officer NeighborWorks®, Western Pennsylvania