



HOUSE OF REPRESENTATIVES
WASHINGTON, D. C. 20515

ELIJAH E. CUMMINGS
SEVENTH DISTRICT
MARYLAND

June 7, 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:

I appreciate the opportunity to submit this statement to be included in the record for the June 14 hearing by the Federal Reserve Board (the Board) in response to growing reports of predatory lending practices in the subprime mortgage industry.

After reviewing Title 15 U.S.C. Sec. 1639(L)(2), I believe that HOEPA clearly grants authority to the Board to address this national crisis. Therefore, as comments and statements are reviewed, I recommend that the measures discussed below be enacted to prevent abusive lending practices in the subprime mortgage industry.

First, lenders should be required at the beginning to establish a borrower's ability to repay over the life of the loan. In the current lending environment, borrowers are being qualified based upon their present ability to repay the loan at a substantially lower interest rate during the first two or three years of the loan. However, when the loan rate adjusts after the initial grace period, many homeowners are finding it impossible to meet the increased payment requirements. Second, the Board should restrict the use of low- and no-documentation loans, which often entice borrowers to obtain a mortgage that is out of their reach. Finally, pre-loan counseling should be required of borrowers receiving a subprime loan.

As you know, becoming a homeowner is a cornerstone to achieving the American dream. In 2006, 69 percent of households owned their homes, a four percent increase from 1995. Home equity is the most important way for families to develop wealth over the long term. The equity in the home is often used by parents to send their children to college, which has a positive impact on society as a whole.

The tremendous housing boom experienced in the United States from 2001 to 2006 was due in large part to historically low mortgage rates, rising home prices, and increased liquidity in the secondary mortgage market. Although subprime loans have expanded homeownership opportunities for borrowers with low or limited credit histories, this expanded opportunity has

come at a cost as subprime mortgages carry higher interest rates than prime mortgages to compensate for the increased credit risk. Furthermore, the subprime market has created opportunities for "predatory" lending to the extent that unscrupulous lenders have hidden the true cost of the loans from unsophisticated borrowers.

Over the past few months, it has become increasingly clear that irresponsible subprime lending practices have contributed to the wave of foreclosures that are hitting homeowners and rattling the housing markets. While this is a nationwide concern, these predatory lending practices are disproportionately hurting minority borrowers. 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.

According to foreclosure tracker, RealtyTrac, 1.2 million homes went into foreclosure in 2006 alone. A report issued by the Center for Responsible Lending (CRL) estimates that approximately 2.2 million homeowners will lose their homes over the next several years. As you are aware, foreclosures have a tremendous negative impact on families, communities and the economy.

I understand the delicate balance that exists between preventing abuses while continuing access to responsible subprime lending and refinancing options that are beneficial to borrowers. However, there can be no denying the tremendous benefits associated with preventing predatory lending and preventing foreclosures. I appreciate your time and consideration and look forward to reviewing the results of the hearing.

Sincerely,

A handwritten signature in black ink, appearing to read "E.E. Cummings". The signature is stylized with a large, looped "E" and a cursive "Cummings".

Elijah E. Cummings
Member of Congress