

June 25, 2007

The Honorable Charles E. Schumer
United States Senate
313 Hart Senate Office Building
Washington, DC 20510

The Honorable Sherrod Brown
United States Senate
455 Russell Senate Office Building
Washington, DC 20510

The Honorable Robert Casey
United States Senate
383 Russell Senate Office Building
Washington, DC 20510

The Honorable Barbara A. Mikulski
United States Senate
503 Hart Senate Office Building
Washington, DC 20510

Dear Senator Schumer, Senator Brown, Senator Casey, and Senator Mikulski:

We, the undersigned organizations, write to express our strong support for S. 1299, the “Borrower’s Protection Act of 2007.” Today, as our nation experiences the worst rate of home losses since the Great Depression, it is clear that Congress needs to take immediate action to end widespread, abusive lending practices in the subprime mortgage market. We commend you for your leadership on this important issue.

For the past decade, subprime lenders and brokers have become increasingly adept at taking advantage of weak consumer protections to market harmful loans to millions of families. It is both ironic and disturbing that the *prime* mortgage market, which targets financially secure families, typically offers safer loan products with greater accountability than the *subprime* market—which is targeted at families who often are already burdened with debt.

For example, prime lenders nearly always establish an escrow account for their customers that covers taxes and hazard insurance, with these costs included in the monthly payment. Subprime lenders typically neglect to set up an escrow account and, in fact, they often deliberately market loans without including the cost of taxes and insurance to deceptively make loans appear to be more affordable than they actually are.

Escrow accounts represent only one example of many. During recent years, consumers with lower-cost prime loans also were much more likely to receive (1) an accurate appraisal of their property; (2) loan terms that matched their credit profile; and (3) in most areas of the country, a mortgage with a fixed interest rate. In stark contrast, subprime borrowers have too often received a high-cost subprime mortgage when they could have qualified for a lower-cost loan, and the vast majority of these loans have come with dangerous adjustable-rate terms—“exploding” ARMs designed for destructive serial refinances. Unfortunately, abuses in the subprime market have had a disproportionate impact on African-American and Latino families, who are more likely to receive subprime mortgages.

Similarly, there are more consumer protections for stock investors than people who receive subprime mortgages. For example, investment professionals selling stock have an affirmative obligation to offer products that are suitable to their clients. Mortgage brokers—the primary providers of home loans, the most important purchase most Americans ever make—are not bound by any similar duty under current federal law.

S.1299 addresses many of these concerns with common-sense protections—protections that responsible lenders offer routinely. As stated in the bill summary, the Borrower’s Protection Act of 2007 would take these vital steps to reduce subprime abuses:

- 1) Establish a fiduciary duty for mortgage brokers and other non-bank mortgage originators;
- 2) Create a good faith and fair dealing standard for all originators;
- 3) Require originators to underwrite loans at the maximum possible payment for the first seven years;
- 4) Require originators to create escrow accounts to pay taxes and hazard insurance on subprime loans;
- 5) Prohibit steering (i.e., brokers may not direct or counsel a consumer to rates, charges and principal amount or prepayment terms that are not appropriate or suitable for them)
- 6) Hold lenders responsible for policing their associated appraisers and brokers, and;
- 7) Prohibit originators from influencing the appraisal process.

We look forward to working with you and your colleagues to enact S. 1299 into law, thereby providing desperately-needed protections for home buyers and homeowners. Thank you again for your leadership and commitment to sustainable homeownership.

Sincerely,

Center For Responsible Lending
Consumer Action
Consumer Federation of America
International Union, United Auto Workers
Leadership Conference on Civil Rights
National Community Reinvestment Coalition
National Consumer Law Center (On behalf of its low-income clients)
National Fair Housing Alliance
National NeighborWorks Association
Opportunity Finance Network
Calvert Social Investment Foundation
Capital District Community Loan Fund
Coastal Enterprises, Inc.
Central Illinois Organizing Project
Community Capital Fund

Community Capital Resources
Community Capital Works
Community First Fund
Enterprise Corporation of the Delta
Federation of Appalachian Housing Enterprises, Inc.
Forward Community Investments
Idaho Nevada CDFI
Illinois Facilities Fund
Low Income Investment Fund
Maui Economic Opportunity Business Development Corporation
North Carolina Community Development Initiative
Northeast Entrepreneur Fund
Northeast South Dakota Economic Corporation
PPEP MicroBusiness and Housing Development Corporation
Rising Tide Community Loan Fund
Rural Community Assistance Corporation
Rural Electric Economic Development, Inc.
Shorebank
Southern Development Bancorporation
Southwest Virginia CDFI
TRIP NW HomeOwnership Center
Vermont Community Loan Fund
Women's Opportunities Resource Center