

ACORN  
Center for Responsible Lending  
Consumer Federation of America  
National Association of Consumer Advocates  
National Consumer Law Center (on behalf of its low-income clients)  
National Council of La Raza

June 16, 2008

The Honorable Barney Frank, Chairman  
The Honorable Spencer Bachus, Rnk. Mem.  
Committee on Financial Services

United States House of Representatives  
Washington, DC 20515

The Honorable Christopher Dodd, Chairman  
The Honorable Richard Shelby, Rnk. Mem.  
Committee on Banking, Housing & Urban  
Affairs

U.S. Senate  
Washington, DC 20510

Dear Chairman Frank, Chairman Dodd, Ranking Member Bachus, and Ranking Member Shelby:

We understand that a proposal, HR 6254 offered by Rep. Gary Miller, is under consideration to include in the housing stimulus bill as a measure intended to relax FHA's certification rules to permit more mortgage brokers instant access to the FHA loan program. The undersigned organizations oppose this approach. Loosening oversight on brokers—the group that originated the majority of failed subprime mortgages—even on a temporary basis would impose additional unnecessary expense on FHA borrowers and create unnecessary exposure to American taxpayers. Even worse, this policy could result in the reemergence of predatory lending practices and actually magnify the risk of today's foreclosure crisis.

This year's authorization of dramatically increased maximum FHA loan limits, the demise of subprime lending and the tightening of conventional guidelines have combined to make FHA-insured loans virtually the only option for many first-time homebuyers and lower-income families. As a result, lenders and mortgage brokers are racing, in record numbers, to obtain FHA licenses. However, it is clear that irresponsible mortgage brokers contributed greatly to the current foreclosure crisis by steering unsuspecting borrowers into needlessly expensive and unaffordable loan products. A recently released study for the U.S. Department of Housing and Urban Development (HUD)<sup>1</sup> confirmed that brokered FHA loans were significantly more expensive to families than those made by direct lenders. The HUD study also found that African-American, Latino, and less formally educated borrowers also tended to pay more for these loans. Another study had already reached similar conclusions with respect to brokered subprime mortgages<sup>2</sup>.

There is little doubt that relaxing the HUD certification process will expand the pool of mortgage brokers allowed to originate FHA mortgages. But at what price? We fear that such a move would permit bad actors—including those that helped to cause the current foreclosure crisis by

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<sup>1</sup> Woodward, Susan, *A Study of Closing Costs for FHA Mortgages*, (prepared for HUD by the Urban Institute), May 2008.

<sup>2</sup> Ernst, Keith, Bocian, Debbie, Li, Wei, *Steered Wrong: Brokers, Borrowers, and Subprime Loans*, Center for Responsible Lending, April 2008.

originating abusive subprime loans—to take advantage of FHA products to the detriment of borrowers and the American taxpayer.

Thus, we urge you to reject allowing direct endorsement lenders to temporarily fund FHA loans by mortgage brokers prior to the brokers receiving FHA's stamp of approval. Please do not permit the FHA program to become the new breeding ground for predatory lending.

Sincerely,

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cc: Secretary Preston, U.S. Department of Housing and Urban Development  
Secretary Paulson, U.S. Department of the Treasury