

Evans, Sandra E

From: Josh Silver [jsilver@ncrc.org]
Sent: Friday, June 21, 2002 9:45 AM
To: regs.comments@ots.treas.gov
Subject: NCRC Addendum to Letter Re Docket No. 2002-17

117A

June 21, 2002

Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G St. NW
Washington DC 20552

Attention: Docket No. 2002-17

To Whom it May Concern:

The National Community Reinvestment Coalition (NCRC) would like to add this addendum to our comments regarding the proposed changes to the Office of Thrift Supervision's regulation implementing the Alternative Mortgage Transaction Parity Act (AMTPA). We are compelled to write this addendum upon review of letters submitted by lender trade associations asserting that the OTS¹ proposal will restrict access to credit for minority and low- and moderate-income borrowers.

Below, we reproduce an op-ed that appeared in the American Banker in the spring of 2001. In that piece, NCRC President and CEO John Taylor effectively rebuts the assertion that anti-predatory legislation or regulation cuts off credit. In fact, the op-ed documents that a stronger Community Reinvestment Act increased access to prime, home mortgage loans in the 1990's. Predatory loans with steep prepayment penalties and other abusive features had little to do with the responsible home mortgage lending and the record gains in homeownership.

We applaud the OTS for its proposal and hope that the agency moves swiftly and strongly. We believe that the agency now has ample evidence and hard data indicating that AMTPA must be changed to outlaw abusive prepayment penalties on alternative mortgages and that doing so will not dry up access to credit.

Attached to this e-mail is the body of the comment letter that NCRC hand-delivered yesterday. If you have any questions we are on 202-628-8866.

Josh Silver
Vice President of Research and Policy
National Community Reinvestment Coalition

Viewpoint: An Anti-Predator's Reader Guide to Tall Tales of Subprime Lending

Friday, April 27, 2001

By John Taylor

Academics including Robert Litan of the Brookings Institution have spread myths recently about the role of subprime lending. Let's explore some of them.

Myth 1: Subprime lending has been responsible for record homeownership rates among minorities

06/24/2002

and lower-income groups.

An invigorated Community Reinvestment Act and community-lender partnerships - not the advent of subprime lending - have spurred banks to make record numbers of home mortgage loans to minorities and lower-income borrowers. In 1990, low- and moderate-income borrowers received 18% of home mortgage loans made by lending institutions. That rose to 26% by 1995 and 30% by 1999.

Notice that the largest increase - 8 percentage points - occurred from 1990 to 1995, before the huge spike in subprime lending. When subprime lending took off from 1995 to 1999, the share of mortgage loans received by low- and moderate-income borrowers climbed only 4 percentage points.

The recent Department of Treasury study required by the Gramm-Leach-Bliley Act of 1999 found that banks made more home mortgage loans in geographical areas in which they made Community Reinvestment Act agreements and established partnerships with community groups. The study also concluded that CRA-covered banks had a considerably smaller share of the subprime market than the prime market.

Myth 2: By and large, subprime lending is priced efficiently.

A study by the Research Institute for Housing America, an offshoot of the Mortgage Bankers Association of America, found that minority borrowers are more apt than whites to receive subprime loans, even after controlling for credit risk factors. Freddie Mac estimates that up to 30% of the subprime loans they have purchased were made to borrowers qualified to receive prime loans. Fannie Mae's CEO claims that half of subprime borrowers should be receiving lower interest rates.

Accordingly, Fannie Mae's Timely Payment Rewards product offers subprime borrowers rates that are 2 percentage points lower than prevailing subprime rates.

The assertions of overall pricing efficiencies in the subprime market are untested, disingenuous, and misleading.

Myth 3: Proposed legislation is counterproductive.

The subprime market is plagued with a segment of predatory lenders that discriminate on the basis of price and load-up loans with abusive terms unrelated to compensating for risk. For example, single-premium credit insurance or the up-front financing of credit insurance products is much more costly to borrowers than if they were to purchase life or disability insurance independent of the mortgage transaction.

Steep prepayment penalties, high balloon payments, and negative amortization on high-interest-rate loans are also abusive practices that were not needed for the prime-rate homeownership boom among lower-income and minority borrowers in the 1990s.

Economists differ on the extent to which regulation and legislation is needed to eliminate market imperfections. But when the imperfections such as natural monopolies appear to be impervious to other approaches, legislation and regulation are called for.

Our group, the National Community Reinvestment Coalition, believes that certain lending practices are so exploitative that they need to be outlawed. Homeownership counseling can help borrowers shop for better loan rates, but why should we warn borrowers about single-premium credit insurance when we believe that such a product is inherently harmful? Why should we counsel borrowers against high prepayment penalties and balloon payments on high-interest-rate loans when limiting these features does not choke off good credit, but only eliminates abusive lending?

It is time for Congress to enact predatory-lending legislation introduced by Rep. LaFalce and Sen. Sarbanes. These carefully crafted bills aim to prevent such lending without blocking underserved populations' access to credit.

Mr. Taylor is president and chief executive officer of the National Community Reinvestment Coalition, Washington.

Copyright 1997-2001, American Banker

06/24/2002

