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NCRC

March 14, 2007

President Bush
1600 Pennsylvania Avenue
Washington, DC 20500

Dear President Bush,

Since 1998, the National Community Reinvestment Coalition and our six hundred member organizations have warned policy leaders about the danger of failing to reign in risky lending practices.

Today we are seeing the consequences of the federal government's failure. A growing number of families face delinquency, default, and foreclosure of their homes. Inexplicably, policy leaders ignored warnings of the risk that predatory lending practices posed to borrowers as well as the broader finance system. In recent days, economists have raised concern that subprime woes may spread to other sectors of the economy as lenders themselves default and investors pull back from the mortgage markets. Former Federal Reserve Chairman Alan Greenspan has warned of a one-in-three chance of a recession on the heels of the failure of the subprime market.

Federal regulators had ample warning. In 2000, subprime loans made up less than 5% of home loans. By 2006, subprime lending had exploded to 20% of the market, with over $600 billions in such loans made last year. Poor underwriting practices and the excessive use of high risk loan features became widespread throughout the industry. Meanwhile, by exempting large scale financial institutions from state laws designed to thwart these kind of predatory lending practices, federal regulators aided and abetted the subprime mortgage meltdown.

In effect, this Administration and the previous Congress allowed the horse not only to gallop out of the barn but jump over the cliff as well.

We call on this Administration and this Congress to take the reins back by immediately amending regulations to allow the Federal Housing Administration to refinance loans for borrowers who have defaulted on these non-traditional, exotic loans. Having helped create the conditions that we see today, the Administration bears some responsibility for assisting the families facing payment shock and foreclosure. FHA's mission has always been not only to help low-income borrowers purchase homes but also keep them in their homes. Unlike many lenders today, FHA has policies in place to

some responsibility for assisting the families facing payment shock and foreclosure. FHA's mission has always been not only to help low-income borrowers purchase homes but also keep them in their homes. Unlike many lenders today, FHA has policies in place to help borrowers avoid foreclosure. Authorizing FHA to step in will immediately reduce the pace of defaults and foreclosures, taking pressure off families and stabilizing the housing market.

But FHA is not the long-term solution to stop abusive behavior by lenders. NCRC has long called for tougher federal consumer laws and a national rescue fund, financed by fees on mortgage brokers, to help families duped by lenders into inappropriate loans.

NCRC, along with over a hundred other groups, have advocated for a number of policies to end predatory practices by lenders. In a February 6th letter to congressional leaders, this coalition appealed for action. This letter is enclosed. We called for anti-predatory lending legislation that would do the following:

Restore sensible underwriting and eliminate unsustainable loans; eliminate incentives, such as the broker payments for "yield spread premiums," to steer borrowers to abusive loans; require accurate and accountable loan servicing; ensure effective rights and remedies for families caught in predatory loans; preserve essential federal and state consumer safeguards; and reduce foreclosures through assistance to distressed borrowers.

NCRC has more than 640 dues-paying member organizations in all 50 states. All of us, every day, hear cries for help; we witness the misery of people, so near their aspirations, topple back into poverty, trying to cling to their homes. We see the threatened neighborhoods, pocked with empty and boarded-up houses; we can attest to the hardship and sadness that greed and recklessness has wrought.

There are ways to make this market much safer. We need to get working on them now.

First, we applaud Congress for holding hearings to get to the bottom of this mess. The Senate Banking Committee heard testimony on the sub-prime implosion in February and, a little later, members of the House Financial Services Committee wrote to the regulators urging they crack down on abusive lenders. A few weeks later the regulators finally took a big step toward policing the market by proposing that sub-prime lenders institute safeguards in their underwriting or higher risk non-traditional loans. The House committee says it will hold hearings later this month.

We believe this hearing is necessary to ensure regulators are doing all they can without cramping the market and keeping creditworthy borrowers from getting loans; to ensure regulators do not pile unfair burdens on the scrupulous lenders who do what is best for their customers. In future hearings, we also should closely examine what regulators have done, why they did not act effectively until a few days ago and whether the regulations they proposed then are sufficient.

And we stress *effective*: We can afford no longer the outdated 1994 law concerning predatory lending, nor bills from legislators who carry water for the big lenders, like former Rep. Bob Ney, whose bill in the last session of Congress was written with help from the lending industry in such a way as to only seem to help consumers.

These are perilous times for our country. We are in the midst of war. Millions of Americans must take the awful risk of going without health insurance and millions more approach retirement without enough money in the bank. Some of our biggest and proudest industries—cars and airlines, to name just two – are shrinking. The gap between rich and poor continues to grow. The victims of Hurricane Katrina cry out for relief.

We know the crash in the sub-prime market is just one of these vast and intractable problems. We know government has many pressing problems before it, and we know that government is not the only answer to the problem. We need to educate poorer, less sophisticated consumers about the scams awaiting homebuyers, and lenders must take responsibility for treating their borrowers fairly.

Yet with what is at stake, we consider our requests only reasonable. Allow FHA to provide relief to borrowers NOW. Then, tackle and resolve the tough issues that community activists have been advocating for years.

Sincerely,



John Taylor
President & CEO
National Community Reinvestment Coalition