NATIONAL COMMUNITY REINVESTMENT COALITION NCRC

News Release

For Immediate Release: December 12, 2001
Release Number 01-11

Contact: John Taylor (202) 628-8866
Internet Address: www.ncrc.org

NCRC Urges More Action Against Predatory Lending in Response to Federal Reserve Ruling

Washington DC – The Federal Reserve Board today approved revisions to their regulation implementing the Home Ownership and Equity Protection Act (HOEPA) that protects borrowers from predatory lending. The revisions apply the protections to more loans, but addressed only a few of the most abusive practices of predatory lenders.

John Taylor, President and CEO of the National Community Reinvestment Coalition (NCRC), asserts that "the Federal Reserve Board's action today are small steps in the fight against predatory lending. These steps, however, are inadequate to address the magnitude of the predatory lending epidemic. The Federal Reserve has stated previously that it lacks the statutory authority to take sufficient action, so their small steps are the equivalent of throwing the gauntlet back to Congress."

The Federal Reserve lowered the interest rate that triggers coverage from 10 percentage points above Treasury security rates to 8 percentage points above Treasury rates for first mortgages. Last year, the federal banking agencies estimated that this change in the interest rate trigger would result in HOEPA covering only 5 percent of high interest rate loans made in this country. NCRC commends the Federal Reserve for lowering the interest rate trigger as far as their statutory authority allows on first mortgages. The Federal Reserve, however, opted to leave the trigger at 10 percentage points above Treasury rates for second mortgages, based on unreliable estimates of a lender trade association that asserted that most second mortgages are covered by the existing trigger.

Ultimately, Congress must act to lower the trigger to six percentage points (or less) above Treasury rates as is done by bills introduced by Senator Paul Sarbanes and Representative John LaFalce. Based on data contained in a report jointly authored by the Department of Treasury and the Department of Housing and Urban Development, the Sarbanes-LaFalce bill would cover about 25 percent of high interest rate "subprime" loans.

On another front, the Federal Reserve Board included the costs of credit insurance in the HOEPA's fee trigger. Credit insurance pays the lender in the case of death or disability of the borrower. Credit insurance, when financed into the loan, adds thousands of dollars to the loan and is much more expensive than when purchased separately from the loan transaction and paid on a monthly basis. Adding the cost of credit insurance into the fee trigger may deter more lenders from financing credit insurance into loans and/or result in HOEPA covering more loans. But a simpler and much more effective approach is to disallow the financing of credit insurance on high cost loans.

Since the Federal Reserve stated in its proposed rule that it lacks the authority to outlaw credit insurance on subprime loans, NCRC strongly supports the Sarbanes-LaFalce bill that bans the financing of credit insurance on HOEPA loans. Significant segments of the industry would not oppose this. Large subprime lenders including Citigroup , Household, and Washington Mutual have recently announced that they will no longer finance credit insurance into subprime loans.

The Federal Reserve adopted a rule today that will bar a lender from refinancing a loan covered by HOEPA for a period of one year. The rule, however, backs away from the Federal Reserve proposal to prohibit the refinancing of Habitat for Humanity loans, which are a specific target of predatory lenders, and other low interest rate loans for a period of five years.

Taylor adds, “The Federal Reserve’s action to ban ‘flipping’ or frequent refinancings falls far short of the needed protection. The one-year prohibition only applies to the lender making the original loan, not third party lenders that seek to take advantage of unsuspecting borrowers. The time period is also inadequate since most cases of flipping occur one year after the loan is made. Moreover, the decision to not provide stronger protections for below market rate loans will rob the American Dream of homeownership for thousands of lower income Americans that have benefited from the scarce resources of nonprofit and public sector programs.”

“Almost two years ago, the former Chairman of the House Banking Committee, Representative Jim Leach (R-IA) stated that the Federal Reserve was AWOL in the fight against predatory lending. Today, the Federal Reserve finally enlisted in the war but their ability and willingness to root out abuses is limited. It is now up to Congress to win the war against predatory lending,” concludes NCRC’s Taylor.

The National Community Reinvestment Coalition is a national not-for-profit with over 800 membership organizations with constituents in every state in the country. The Coalition has spearheaded a proactive community reinvestment movement with the goal of ending discriminatory banking practices and increasing the flow of private capital and credit into traditionally underserved communities.

###