

Testimony of

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Committee on Oversight and Government Reform

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Hearing on Bank Mergers and Subprime Mortgage Credit Problems

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Bank Consolidation, Subprime Mortgage Issues, and the One-Page Mortgage Disclosure

Mr. Chairman, Ranking Member Issa, and members of the Subcommittee, thank you for the opportunity to be here today. I am Alex Pollock, a Resident Fellow at the American Enterprise Institute, and these are my personal views. Before joining AEI, I spent 35 years in banking, including 12 years as President and CEO of the Federal Home Loan Bank of Chicago, and am a Past President of the International Union for Housing Finance. I have both experienced and studied many credit cycles, of which the subprime mortgage boom and bust is the latest example.

I will address five topics:

- The evolution of American banking structure
- The subprime mortgage bust in context
- The case of Ohio
- Information asymmetries
- The one-page mortgage disclosure proposal

The Evolution of American Banking Structure

In 1970, when I was just beginning in the banking business, there were about 13,500 banks in the U.S. By 2005, there were about 7,500—a reduction almost in half. How should we think about this consolidation?

The historical context is that the normal evolution of banking to a national basis, to match the evolution to a national U.S. economy in other respects, was blocked for decades by artificial legislative and regulatory barriers. This resulted in a fragmented, less efficient, and more risky banking system composed of mostly undiversified small entities. When the barriers to the natural development were removed, the delayed consolidation, which is still in process, began.

This does not result in reduced access to banks—just the opposite. In 1970, there were about 44,600 banking offices, mostly branches; by 2005, this had increased to about 80,300. So while the number of banks halved, the number of banking locations about doubled. They significantly increased per capita—from 1.7 to 2.8 locations per 10,000 of population, or about a 60% increase.

Of course, that does not count off-site ATMs, which weren't there in 1970, but have grown to 260,000, networked across the country and indeed the world. Nor does it include debit cards, then nonexistent, now ubiquitous, with more than 220 million in circulation.

In short, on a national basis, bank consolidation has been accompanied by much greater convenience and access to the banking and payment system.

I am by no means an expert on Cleveland. However, between 1970 and 2005, the population of the city fell from 751,000 to 415,000, or about 45%. If Cleveland matched the national averages, the increase in banking offices per capita combined with the population decline would mean a reduction of about 12% in banking locations. At the same time, there would have been a notable increase in the number of ATMs and debit cards.

The Subprime Mortgage Bust in Context

As we all know, the unsustainable expansion of subprime mortgage credit which accompanied the great house price inflation of the past several years is in reverse. The market is correcting sharply and rapidly. Former enthusiasm has been replaced by large financial losses, layoffs, bankruptcy of subprime lenders, accelerating delinquencies and foreclosures, a recession in homebuilding, tightening liquidity, and of course, recriminations. The subprime boom is over; the bust is here.

All these elements display the classic patterns of recurring credit overexpansions and their aftermath. Such expansions are based on optimism and a euphoric belief in the

ever-rising price of some asset class—in this case, houses and condominiums. This appears to offer a surefire way for lenders and borrowers to make money. The booms are inevitably followed by a hangover of defaults, failures, dispossession of unwise or unlucky borrowers, revelations of fraud and scandals, and late-cycle regulatory and political reactions.

With regard to last point, since 1970 we have had the Emergency Home Finance Act of 1970, the Emergency Housing Act of 1975, The Emergency Housing Assistance Act of 1983, and the Emergency Housing Assistance Act of 1988. (I do not count the Hurricane Katrina Emergency Housing Act of 2005, a special case.) The eminent financial historian, Charles Kindleberger, estimated that over the centuries, financial crises of various kinds recur about once a decade on average, and so have emergency housing acts.

In the general pattern of credit overexpansions, nothing changes. You would think that we would learn, but we don't.

This time, we had a period of remarkably rising house prices—the greatest house price inflation ever, according to Professor Robert Shiller of Yale University. This stimulated the lenders—and it stimulated the borrowers. If the price of an asset is always rising, the risk of the loan seems less and less to both.

Subprime mortgages grew from 2.4% to 13.7% of total mortgage loans from 2000 to 2006, according to the Mortgage Bankers Association. Interestingly, however, the MBA numbers show that the proportion of prime loans also increased, from 72.6% to 76.6%. How could both increase? Because the share of the government's FHA and VA loans—also nonprime—fell from 25.2% to 9.7%. So subprime loans basically took share away from the government alternatives. If we add together the subprime, FHA and VA shares as the nonprime total, it falls from 27.6% to 23.4% over the six-year period. Of course all the whole market was growing rapidly.

Booms are usually accompanied by a theory that we are in a “new era”: the subprime mortgage boom was no different. A good example of such thinking was a 2005 book by an expert housing economist entitled, Are You Missing the Real Estate Boom? The Boom Will Not Bust and Why Property Values Will Continue to Climb Through the Rest of the Decade. It began, “The recent U.S. real estate boom has made money for an incredible number of households in America.”

This is a key point. The boom gets going because many people experience financial success. This so-far successful speculation is extrapolated. Subprime borrowers could get loans to buy houses they would otherwise be unable to and benefit from subsequent price appreciation. A borrower who took out a very risky 100% LTV, adjustable rate mortgage with a teaser rate to buy a house which subsequently appreciated 30% or 40% now had substantial equity and a successful outcome as a result of taking risk.

Should people be able to take such risks if they want to? Yes, but they should have a reasonable idea of what they're doing.

Mortgage finance has some reliable systematic risk factors, and the subprime boom had all these factors operating together:

- Subprime loans have higher defaults and losses than prime loans
- Adjustable rate loans of all kinds have higher defaults and losses than fixed rate loans
- High loan-to-value (LTV) loans have higher defaults and losses than low LTV loans
- Low documentation loans have higher defaults and losses than standard documentation loans.

Current statistics reflect all these fundamental factors. The subprime mortgage lenders knew all these statements were true, but the risk acceleration of the boom outstripped the expectations of their models.

The national foreclosure rate on subprime mortgages of 4.5% at the end of 2006 was well below its recent peak of over 9% in 2000, but is rising. The foreclosure rate for the oil patch mortgage loan bust of the 1980s peaked at 14.9% for Arkansas, Louisiana, Mississippi and Oklahoma—an extreme experience used for stress tests by the bond rating agencies.

Booms almost always induce fraud, misrepresentation and scandals. National Mortgage News recently referred to “the explosion of mortgage fraud,” that is, the lenders being defrauded.

Consider in this context the spread of so-called “stated income” loans. The disastrous previous experience with this idea, then called “no doc” or “low doc” loans, seems to have been forgotten. They have the now-familiar name of “Liars’ Loans,” since they are an obvious temptation to exaggerate income in order to get the loan to buy the house you want.

A study cited by a COHHIO paper, “Dimensions of Ohio’s Foreclosure Crisis,” suggests that “over 90% of stated income loans had inflated incomes.” Personally, I doubt that it is that high, but do not doubt that it is widespread. Subprime borrowers with defaulted loans have sometimes been referred to as “victims.” In my view, however, people who lied about their income to get a loan do not qualify as victims. In the one-page disclosure I will discuss further below, an essential item is a clear and unambiguous confirmation of the household income upon which the loan is based.

The Case of Ohio

Ohio has the highest percentage of mortgage loans in foreclosure among states, according to MBA statistics, at 3.38%, compared to a national average of 1.19%. It has a relatively high share of subprime loans at 15.4%, compared to a national average of 13.7%. It also has a high rate of homeownership, 73.3%, up from 68.7% in 1990 and well over the national average of 69%. It has relatively high unemployment (5.6%) and low job growth (0.1% year over year), two factors significantly correlated with mortgage loan defaults. Its statistics are quite similar to those of neighboring Michigan and Indiana, but with the highest serious delinquency rate of the three and indeed in the U.S.

The serious delinquency rate, a key credit indicator, is the sum of loans 90 days past due and in foreclosure. Ohio's rate is 5.12%.

But this is not only a subprime problem. Ohio's serious delinquency rate is approximately twice the national average in all loan categories. It is 2.1 times the average in subprime ARMs, 2.2 times in subprime fixed, 1.6 times in FHA loans—and 2.7 times the average in prime ARMs and 2.7 times the average in prime fixed rate loans.

The specific serious delinquency rates of Ohio vs. the U.S. average are as follows:

	<u>Ohio</u>	<u>U.S.</u>
Subprime ARMs:	19.03%	9.16%
Subprime fixed rate:	13.05%	6.04%
FHA:	9.43%	5.78%
Prime ARMs:	3.89%	1.45%
Prime fixed rate:	1.95%	0.69%

It is interesting that for the country as a whole, FHA loans, which are predominately fixed rate, have a serious delinquency rate very similar to fixed rate subprime loans. This is not true for Ohio, however.

Also interesting is that according to the 2007 COHHIO study, “contrary to popular perceptions more subprime mortgages were originated in Ohio's middle and upper income areas, than in moderate and low income areas....Subprime loans are now a predominately middle and upper income product.”

All in all, the problems are obviously serious, but they appear to me more complex than a simple “subprime loans” story.

Information Asymmetries

“Information asymmetries” is an academic way of describing a common problem in financial and other transactions when one party knows a lot more about the relevant matters than the other—or stated the other way, when one party is naïve and uninformed and the other is the opposite. This is a classic problem with various remedies. It is quite interestingly discussed in the mortgage context by Professors Engel and McCoy in their paper, “A Tale of Three Markets,” although I reach a different conclusion than they do.

If we are worried that A is insufficiently knowledgeable to be able to achieve a fair transaction, there are two fundamental approaches. One is to appoint B to take care of A. This is the class of regulatory or fiduciary approaches, paternalistic in various degrees. The other is to require B to tell A the truth and equip A to take care of himself. This is the class of disclosure approaches, which maintain that people will protect their own interests if they have the relevant information.

To help address the shortcomings of the subprime market which have become evident, I believe a new, superior disclosure approach is needed, whether or not we do anything else. The key is to realize that complex, lengthy statements in regulatoryese and legalese do not achieve the goal. Moreover, the simple, clear disclosure should be focused on the financial impact on the borrower, not on the financial instruments. Of this, more in a moment.

Another information asymmetry which has characterized the subprime mortgage boom is the difference between the credit knowledge possessed by the party actually making the loan and the investor buying the security. This is a general problem with securitized markets.

I believe that in an ideal mortgage finance system, the loan originator should always maintain a significant credit risk position in the loan, which creates a superior alignment of incentives. This is always my advice to developing countries as they consider housing finance ideas. As it did in the subprime mortgage boom, securitization typically breaks the link between the originator of the loan and who actually bears the credit risk. This can lead to less careful lending.

But securitization, as it developed in the 1980s, also saved the fixed rate mortgage loan. Remember that fixed rate mortgages kept in portfolio by the savings and loans were the basic cause of the savings and loan collapse of the 1980s, due to their interest rate risk.

Financial markets are always experimenting with how best to move risks around, but risk cannot be made to disappear.

The Ohio Attorney General has recently announced that he plans to sue subprime mortgage lenders and investment banks on behalf of both borrowers and the Ohio Public

Employees Retirement System, which invested in subprime mortgage-backed securities. The argument would be that there were unfair information asymmetries on both ends.

However, the Attorney General should be glad that investors in subprime assets are not legally responsible for the actions of the lenders—as some people have suggested they should be—or he would have to sue his own Retirement System.

The One-Page Mortgage Disclosure Proposal

When considering borrowers in financial trouble, whether from unwise borrowing, not having understood the loan, or even induced into loans by misrepresentation, there is a natural political reaction to try to protect them through credit regulation.

I believe a superior strategy is to equip borrowers to protect themselves by requiring short, simple and clear disclosures of the key mortgage loan terms and their relation to household income. The borrowers can then “underwrite themselves.” They have the natural incentive to do so—we need to add intelligible, practical information.

Thus I propose there should be a required one-page form which gives the essentials of the loan and its monthly cost, which must be given to every mortgage borrower three days before closing.

A good mortgage lender wants a borrower who understands how the loan will work, including any possible future interest rate increases and prepayment penalties. The total monthly obligation needs to be put clearly in the context of the borrower’s income.

Current American mortgage loan documents certainly do not achieve this. Most of us have had the experience of being overwhelmed and befuddled by the huge stack of documents full of confusing language in small print presented to us for signature at a mortgage closing. The complexity results from legal and compliance requirements. Ironically, past regulatory attempts to insure full disclosure have made the problem worse. That is because they attempt full, rather than relevant, disclosure.

To achieve an informed borrower, the key information must be simply stated and clear, in regular-sized type: 90% of the relevant information which is clear and understandable is far better than 100% of the details which are complex and hard to read. Trying to describe the details in specific legal and bureaucratic terms results in essentially zero information transfer to the borrower.

The one-page form should include key underwriting concepts, including the borrower’s income and housing expense ratio, as well as principal loan terms. The “housing expense ratio” means the sum of the monthly interest payment, principal payment, property tax, and house insurance premium, expressed as a percent of the borrower’s monthly income. This should be shown for both the initial interest rate and the fully-indexed interest rate.

In typical types of subprime loans, the fully-indexed expense ratio can be a remarkably larger burden than the initial or “teaser” rate suggests.

The proposed one-page “Basic Facts About Your Mortgage Loan” form, with accompanying common sense explanations and avuncular advice, is Attachment 1.

The Shadow Financial Regulatory Committee, while rejecting on economic grounds a number of other proposals for government actions, supports the simplified disclosure approach as “the only reform that merits attention at this time.” Their statement is Attachment 2.

One of the deans of mortgage journalists has written of how the one-page proposal is distinct from previous regulations and simplification attempts. His article is Attachment 3.

Whatever else is done or not done, I believe the one-page disclosure would be an important step forward for America’s and Ohio’s mortgage borrowers and housing finance system.

Thank you again for the opportunity to share these views.

Attachment 1: “The Basic Facts About Your Mortgage Loan”

Attachment 2: “Subprime Mortgage Lending Remedies and Concerns”

Attachment 3: “Form Simplifies Rules for Lending Process”

THE BASIC FACTS ABOUT YOUR MORTGAGE LOAN

Borrower: _____ Property address: _____

Lender: _____

Amount of loan: \$ _____, which is _____% of the property's appraised value.
Your loan is for _____ years. Its final maturity date is _____.
The type of loan you have: _____

Your beginning interest rate is _____%. This rate is good for _____ months/years. The rate and your payment can go higher on _____ and each _____ months after that.

Today's estimate of how high the rate will go, called the fully indexed rate, is _____%.
The maximum possible rate on your loan is _____%.

THIS LOAN IS BASED ON YOUR MONTHLY INCOME OF \$ _____.

Your beginning rate = a monthly loan payment of \$ _____ = _____% of your income.
-including taxes and insurance this is about \$ _____ = _____% of your income.

The fully-indexed rate = a loan payment of \$ _____ = _____% of your income.
-including taxes and insurance this is about \$ _____ = _____% of your income.*

*This is called your fully indexed housing expense ratio.

Special factors you must be aware of:

- A prepayment fee of \$ _____ must be paid if _____.
- A "balloon payment" of \$ _____ to pay off your loan will be due on _____.
- You do/do not have a "payment option" loan. If you do, make sure you really understand what this means. Start with the definition on p. 3.

Total "points" plus estimated other costs and fees due at closing are \$ _____.

FOR QUESTIONS CONTACT: Name: _____

Phone: _____ e-mail: _____

**See definitions of underlined terms and guidelines on pages 2-3.
DO NOT SIGN THIS IF YOU DON'T UNDERSTAND IT!**

Borrower Date

Authorized Signer of Lender Date

Borrower Date

The Basic Facts about Your Mortgage Loan

This form gives you the basic facts, but some mortgage forms may use terms not listed here. For a good, borrower-friendly information source, try the Mortgage Professor online (www.mtgprofessor.com), which includes detailed explanations of the technical mortgage terms in its glossary and other helpful information.

Definitions and Guidelines Used in This Form

The *appraised value* is what a professional appraiser estimates the house could be sold for in today's market.

The *type of loan* determines whether and by how much your interest rate can increase. If it can, your monthly payments will also increase—sometimes by a lot. For example, in a thirty-year fixed-rate loan, the interest rate is always the same. In a one-year ARM, it will change every year. In a 2/28 hybrid, it will be the same for two years and then go up a lot, and change frequently after that.

The *beginning interest rate* is the interest you are paying at the beginning of the loan. It is the rate which you will hear the most about from ads and salespeople. But how long is it good for and when will rates increase? In many types of loans, the rate will go up by a lot. You need to know.

The *fully-indexed rate* is an essential indicator of what will happen to your interest rate and your monthly payments. It is today's estimate of how high the interest rate on an adjustable rate mortgage will go. It is calculated by taking a defined "index rate" and adding a certain number of percentage points, called the "margin." For example, if your formula is the one-year Treasury rate plus 3 percent, and today the one-year Treasury rate is 5 percent, your fully-indexed rate is $5\% + 3\% = 8\%$. This will *always* be higher than your beginning rate.

The index rates are public, published rates, so you can study their history to see how much they change over time. If the index rate stays the same as today, the rate on your loan will automatically rise to the fully-indexed rate over time. Since the index rate itself can go up and down,

you cannot be sure what the future adjustable rate will be. In any case, you must *make sure you can afford the fully-indexed rate*, not just the beginning rate, which is often called a "teaser rate" for good reason.

The *maximum possible rate* is the highest your interest rate can go. Most loans with adjustable rates have a defined maximum rate or "lifetime cap." You need to think about what it would take to make your interest rate go this high. How likely do you think that is?

Your *monthly income* means your gross, pretax income per month for your household. This should be an amount which you can most probably sustain over many years. Make sure the monthly income shown on this form is correct.

Your *monthly payment including taxes and insurance* is the amount you must pay every month for interest, repayment of loan principal, house insurance premiums, and property taxes. Expressed as a percent of your monthly income, this is called your housing expense ratio. Over time, in addition to any possible increases in your interest rate and how fast you must repay principal, your insurance premiums and property taxes will tend to increase. Of course, your monthly income may also increase. How much do you expect it to?

Your *fully-indexed housing expense ratio* is a key measure of whether you can afford this loan. It is the percent of your monthly income it will take to pay interest at the fully-indexed rate, plus repayment of principal, house insurance, and property taxes. The time-tested market standard for this ratio is 28 percent; the greater your ratio is, the riskier the loan is for you.

A *prepayment fee* is an additional fee imposed by the lender if you pay your loan off early. Most mortgages in America have no prepayment fee. If yours does, make sure you understand how it would work before you sign this form.

A "*balloon payment*" means that a large repayment of loan principal is due at the end of the loan. For example, a seven-year balloon means that the whole remaining

loan principal, a very large amount, must be paid at the end of the seventh year. This almost always means that you have to get a new loan to make the balloon payment.

A “*payment option*” loan means that in the years immediately after securing a mortgage loan, you can pay even less than the interest you are being charged. The unpaid interest is added to your loan, so the amount you owe gets bigger. The very low payments in early years create the risk of very large increases in your monthly payment later. Payment option loans are typically advertised using only the very low beginning or “teaser” required payment, which is less than the interest rate. You absolutely need to know four things: (1) How long is the beginning payment good for? (2) What happens then? (3) How much is added to my loan if I pay the minimum rate? (4) What is the fully-indexed rate?

“*Points*” are a fee the borrower pays the lender at closing, expressed as a percent of the loan. For example, two points

mean you will pay an upfront fee equal to 2 percent of the loan. In addition, mortgages usually involve a number of *other costs and fees* which must be paid at closing.

Closing is when the loan is actually made and all the documents are signed.

The *For Questions Contact* section gives you the name, phone number, and e-mail address of someone specifically assigned by your lender to answer your questions and explain the complications of mortgage loans. Don’t be shy: contact this person if you have any questions.

Finally, *do not sign this form if you do not understand it*. You are committing yourself to pay large amounts of money over years to come and pledging your house as collateral so the lender can take it if you do not pay. Ask questions until you are sure you know what your commitments really are and how they compare to your income. Until then, do not sign.



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Statement of the Shadow Financial Regulatory Committee on
Subprime Mortgage Lending Remedies and Concerns

May 7, 2007

Softening home prices are subjecting some mortgage lenders, mortgage borrowers, and holders of mortgage-backed securities to increasing stress. The stress is particularly intense for a narrow subset of subprime loans whose contracts feature teaser interest rates and/or zero or nearly zero downpayments. Subprime borrowers are characterized by a low credit score or weaknesses in documentation. Monthly payments on teaser-rate loans jump from temporarily low initial payments to much higher levels after one or two years have passed.

A small proportion of these so-called “exploding-obligation” subprime mortgages were underwritten in ways that qualified borrowers for loans that they could not be expected to handle once contract rates reset unless their incomes increased substantially or housing prices rose to create additional equity. The worst of these loans were based on inadequately tested income information supplied by overeager or fraudulent borrowers.

Subprime lending can benefit society by enabling families with low incomes or few assets to become homeowners. Originations of subprime mortgages have accounted for a rising share of total mortgages originated. In 2006 subprime loans were less than 15 percent of outstanding mortgage finance, and the share of zero-downpayment teaser-rate loans between only one and two percent.

The Shadow Financial Regulatory Committee would like to correct the perception that this narrow category of subprime lending is responsible for the turbulence in financial and housing markets that has emerged in recent months.

The housing and mortgage-lending bubbles were fueled by many factors. While defaults on teaser-rate loans have contributed to the rise in delinquency and foreclosure rates, at the current time (although partly because of widespread negotiation) the default rate on subprime mortgages is running just less than that experienced as recently as 2000-01.

Lenders that allowed borrowers to take loans with zero or tiny downpayments should not be surprised that many borrowers treat such mortgages as if they were rental contracts and are prepared to vacate their properties if monthly payments rise. Zero-downpayment borrowers effectively negotiated a below-market rent for the period they were in the home. Nonetheless, the prospect of widespread foreclosures in the future has sparked demands for federal assistance and regulatory reform.

Proposals for addressing this problem include: offering direct or indirect federal subsidies for low-interest bridge loans to delinquent borrowers; imposing federal suitability standards or restricting particular dimensions of future adjustable-rate home-mortgage contracts; establishing a new federal regulatory regime for nonbank mortgage lenders (who have originated most subprime adjustable-rate mortgages); and designing simpler and more-accurate disclosures by lenders of the risks inherent in mortgage contracts, particularly for loans offering a lesser rate.

The Committee disagrees with calls for massive federal intervention into mortgage markets. To the extent that defaults on subprime mortgages may contribute to deterioration in local housing markets, efforts to assist borrowers in those particular areas should be treated and funded locally. These are not problems that call for federal subsidies, whether appropriated by Congress or channeled less transparently through below-market refinancings of troubled loans by Fannie Mae and Freddie Mac (as these firms' managers have proposed). It also is not sensible policy for either the states (as some have already done) or the federal government to expand 100-percent, or "zero equity", mortgage loans in an effort to increase home ownership. Some zero-equity borrowers have been gambling that home prices will continue to increase, gambles that government should not encourage, especially in light of recent declines in home prices in some parts of the country.

The Committee believes that efforts to bail out parties that make bad decisions will elicit new and stronger waves of poor lending practices and unrealistic borrowing decisions in future years. Though painful adjustments are required, market solutions to mortgage financing problems are underway. If allowed to run their course, these market solutions will, on average, penalize unwise and careless lenders more severely than they will punish conscientious but delinquent borrowers.

Subprime lenders whose underwriting standards have proven inadequate are being forced to exit the industry. Insolvent entities are being dropped by their auditors and their portfolios and viable platforms for originating and servicing mortgage loans are often snapped up by other financial institutions, although at substantial discounts from book values. Marketable securities backed by poorly documented subprime mortgages are trading at similar discounts.

Industry realignment and the loss absorption it entails are healthy forms of market discipline. Putting the mortgage-lending and mortgage-backed securities industries through these disciplines is the fairest and most efficient way to insure that subprime and other mortgage lenders upgrade and rationalize their underwriting activities in the future.

The only reform that merits attention at this time is for regulators to require vastly simplified disclosures to borrowers on their applications and on all follow-up documents that clarify how much initial interest rates can increase on teaser-rate or capped adjustable-rate loans:

- by identifying the highest interest rate and corresponding monthly payment and the earliest date on which that rate and payment might apply;
- by giving a clear statement of the percentage of the borrower's monthly income that the current and the maximum possible mortgage payment might absorb;
- by including a strongly highlighted warning just above the signature line stating that borrowers should not sign the document unless they fully understand the size and time pattern of the maximum payments they might be obligated to make.

HOUSING SCENE LEW SICHELMAN

Form simplifies rules for lending process

May 13, 2007

WASHINGTON – Sometimes it doesn't take a village.

For decades now, government and industry alike have been calling for updated and simplified rules governing the mortgage-lending process. But try as they might – and to their credit, they have tried – they have been unable to come to an agreement on anything that would modernize two key consumer-protection laws.

That would be the Real Estate Settlement Procedures Act and the Truth in Lending Act. RESPA is designed to help consumers be better shoppers in the home-buying process, while TILA requires clear disclosure of key lending terms and all costs. But they were enacted in 1974 and 1968, respectively.

That was long before the rise of mortgage brokers that originate loans but don't actually put up any money, automated underwriting that tells applicants in a matter of seconds whether they qualify for the mortgage of choice and the growth in importance of scoring models that rate the creditworthiness of would-be borrowers.

These, of course, are just three of the many changes that have brought the mortgage business into the 21st century. Yet RESPA and TILA remain essentially the same laws they have always been.

Eleven years ago, Congress asked the Federal Reserve Board and the Department of Housing and Urban Development to come up with a better mousetrap. But they couldn't agree. Instead, they turned their conflicting recommendations back to lawmakers, saying, in effect, “You decide.” Congress never did.

Under Bill Clinton, HUD Secretary Andrew Cuomo picked up the gauntlet. Nothing. During George W. Bush's first term, the next HUD secretary, now Sen. Mel Martinez, R-Fla., gave it a try, too. Nada. Martinez's successor has been studying the question as well. But despite continued promises that something would be forthcoming soon, Alphonso Jackson hasn't done anything, either.

During all this, the mortgage business has been calling loud and clear for better laws. But infighting among the various players in the process – brokers, funding lenders, real-estate professionals, title companies, builders, appraisers and so on – has served only to block whatever efforts put forth to improve consumer protections.

While each sector jockeyed for position, a proposal to bundle the incomprehensible list of closing costs into a single, guaranteed price has come and gone. The idea was to save borrowers

money – and prevent them from being surprised with hundreds of dollars more in fees at closing – by giving them one number they could use to compare the offerings of various lenders.

When that didn't happen, all eyes turned to the good-faith estimate of closing costs that lenders are required to supply borrowers within three days of receiving their applications. Mortgage interests said borrowers needed a document that better matched the settlement statement, known affectionately as HUD-1, that they received at closing.

Everyone who has ever taken out a mortgage knows the figure at the bottom line of the good-faith estimate is never, ever the same as the amount you make out a check for at settlement. So the plan was that, if nothing else, borrowers would pay the closing costs that lenders promised.

That concept hasn't come to pass, either. So, when the subprime-mortgage sector – the one that serves borrowers whose credit histories prevent them from qualifying for the best rate and terms – began to unravel amid cries of fraud and deception, the industry said what's needed is a simpler, easier way to inform borrowers of the pitfalls associated with the loan products they are considering. That way, the industry reasoned, consumers can't be taken advantage of.

John Robbins, chairman of the Mortgage Bankers Association, called for a one-page form that not would only list the risks and rewards of specific loans but also spell out exactly what a would-be borrower's monthly payment would be under various interest-rate scenarios. If the rate does not change, the payment would be this. But if the rate goes up, the payment would be that. And if any interest due is deferred, the payment and outstanding balance would be thus and so.

Under Robbins' leadership, the MBA formed a task force, “Project Clarity,” to devise the one-pager. But guess what? It couldn't be done. While the group is “very close” to finalizing an information sheet that would detail what a consumer needs to know about a mortgage and what to ask lenders, it's no longer a single page.

It won't be specific to each borrower's mortgage, either, at least not on paper. But consumers will be able to go to MBA's Web site, www.HomeLoanLearningCenter.com, to plug in their own loan-specific information for each and any of their product choices.

The “logistics” of producing such a document was too difficult, according to MBA representative Cheryl Crispen. “We tried, but it just proved unrealistic to believe we could be transaction-specific for hundreds of thousands of loans.”

Unrealistic to a committee, perhaps, but not to one person. Not if that person is Alex Pollock, a research fellow at the American Enterprise Institute, a Washington-based, nonpartisan public-policy research group.

Earlier this year, Pollock, who spent 35 years in banking, the last dozen as president of the Federal Home Loan Bank of Chicago, before joining AEI nearly three years ago, told a House subcommittee that what borrowers need is a “one-page form” that sets forth the essentials of their loan. Then he went home and designed one – all by himself.

To be honest, his form actually encompasses three pages. But the last two largely contain a glossary of key but unfamiliar terms consumers must understand to be fully informed. Page 1, however, contains the “basic facts,” which are all the figures Pollock believes borrowers really need to know.

There's no laundry list of closing fees, only a single line for the total costs of the loan – points plus estimated other charges. Why? Because people don't need a breakdown, Pollock maintains.

“People need to stay on the main points and not dwell on details they find befuddling,” he explains. “They need to understand how much the loan is going to cost and what the monthly payment will be.”

Among the high points of Pollock's one-pager: Loan amount, loan-to-value ratio, term and maturity date, starting rate and for how long, if and when a higher rate begins, the maximum possible rate, monthly payments as a percentage of income and including taxes and insurance at the beginning and fully indexed rate, and possible prepayment fees and balloon payments.

There it is, all on a single page. Along with this admonition in forceful, boldface type: “DO NOT SIGN THIS IF YOU DON'T UNDERSTAND IT!”

Pollock, who loves the freedom AEI affords him to tackle anything he likes, says it took several days to devise the document. “It was harder than you think when you try to do something simple,” he says. “But it was a lot easier for one independent agent to do than a committee of 39.”

Don't we know it.

He has tested his “Basic Facts About Your Mortgage Loan” on a number of people, including his younger co-workers, people who work in his brother-in-law's tool shop and his own children. He hasn't shown it to HUD, the FTC or Congress, at least not just yet. But he says the folks at the MBA have taken a shine to it.

Only time will tell whether anything will come of Pollock's work.

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