

## “Improving Mortgage Disclosure”

American Enterprise Institute

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Introduction

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It is a pleasure to welcome you all to our conference on “Improving Mortgage Disclosure,” a goal everyone can agree on. I am Alex Pollock, a resident fellow here at AEI, and we have an excellent keynote speaker and panel, whom I will introduce in a moment.

A market economy based on voluntary transactions and contracts requires that the parties understand the contracts they are entering into. In the particular case for our discussion today, a good mortgage finance system requires that borrowers understand how the loan will work and how much of their income it will demand. The key information should be simply stated and clear. As I say, we can all agree on this.

We can also agree that current American mortgage loan documents fail to achieve clarity for borrowers, and that past regulatory efforts to insure detailed disclosure seem to have made things even more confusing.

Just this week, the Federal Trade Commission has released a very interesting new study on mortgage disclosures written by James Lacko and Janis Pappalardo. They observe that we have had “a long history of mortgage cost disclosure requirements and many legislative and regulatory proposals,” but conclude that “current mortgage cost disclosures failed to convey key mortgage costs to many consumers,” and that “both prime and subprime borrowers failed to understand key loan terms.”

Among the remarkable specifics, they found that:

“About a third could not identify the interest rate”

“Half could not correctly identify the loan amount”

“Two-thirds did not recognize that they would be charged a prepayment penalty”  
and

“Nearly nine-tenths could not identify the total amount of up-front charges.”

As this year’s events have demonstrated, this is especially important, though by no means limited to, the subprime market. In this context, an Illinois study recently cited by the

*New York Times* has claimed that “the majority of borrowers who were about to take on adjustable-rate mortgages believed that they had fixed rate loans.”

Surely we can do better than this!

As many of you know, my own response to improving mortgage disclosure was to design a one-page “Basic Facts About Your Mortgage Loan” form in language as straightforward as possible. This turns out to be hard to do! I believe this form or something like it should be required for all mortgages. A copy of the proposed form is in your conference packet.

One difference from all previous disclosures is that the one-page form includes the household income on which the loan is based and the resulting percent of income needed for monthly payments, including that percent at the fully-indexed rate for adjustable rate loans.

Our keynote speaker focused on this proposal when I presented it at a hearing of the Financial Institutions Subcommittee of the House Financial Services Committee. We have continued discussions of it since, and he has been good enough to pursue it in Congressional discussions, as well.

You have biographies of all our speakers in your conference packet, but let me quickly introduce our keynote speaker, Congressman McHenry, and the very knowledgeable members of our panel, in the order in which they will speak.

Congressman Patrick McHenry represents North Carolina’s 10<sup>th</sup> district. He is a member of the Financial Services Committee, the Budget Committee, and the Committee on Oversight and Government Reform, and also serves a deputy Republican whip. He has received numerous awards, including those of Small Business Champion, Hero of the Taxpayer, Protector of Property Rights, and the U.S. Chamber of Commerce’s Spirit of Enterprise Award. We are delighted that he is able to be with us today.

After Congressman McHenry, we will hear from Kurt Pfothauer, the senior vice president for government affairs of the Mortgage Bankers Association, the leading source of mortgage lending statistics and research. Kurt is kindly filling in for John Robbins, the MBA chairman, who became ill and is unable to be with us. Prior to joining the MBA in 2002, Kurt served as a chief of staff in both the House and the Senate.

Our next speaker will be John Allison, who is the Mississippi Commissioner of Banking and Consumer Finance. His experience in the department goes back to 1972, so he has many years of hands on experience with consumer issues in mortgage lending. John has been active in the Conference of State Bank Supervisors for two decades, and served as chairman of this key coordinating organization in 2005.

Completing the panel will be Chris Cruise, who is one of the most experienced trainers of residential mortgage loan originators and processors in the nation. Among his clients are

some of the largest mortgage lenders, including Countrywide and GMAC. He is a member of the board of directors of the Maryland Association of Mortgage Brokers and of the National Association of Responsible Loan Officers.

Each member of the panel will speak for 12 to 15 minutes, after which we will give them a chance to comment or respond to each other. Then we will open the floor to your questions. We will adjourn promptly at 11:00, or earlier if we run out of questions.

Congressman McHenry, welcome. The floor is yours.