



## Fed again urged to end abusive mortgage practices

By Robert Schroeder, MarketWatch

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WASHINGTON -- For the second time in a week, the Federal Reserve was urged to draw up tough rules to stem abuses in the mortgage industry on Thursday.

Meeting at the Fed's headquarters, members of the central bank's consumer advisory council urged regulators to use their legal authority to stiffen regulations about the affordability of subprime loans, to improve disclosure about risky loans and apply anti-abuse rules to as many lenders as possible.

"You have the power to act, and act in the interest of the entire mortgage market," said Stella Adams, a council member and consultant from Durham, N.C. "We need you to use that authority."

Spurred by rising foreclosures in the subprime mortgage market, which serves borrowers with less-than-stellar credit, regulators and lawmakers have been mulling new rules to protect consumers. The Fed has authority under the Home Ownership and Equity Protection Act of 1994, or HOEPA, to address abuses.

Thursday's meeting follows a similar meeting last week in which state bank regulators said more rules could be applied to practices like prepayment penalties and stated income loans. [See earlier story.](#)

Interested parties have until Aug. 15 to send their opinions to the Fed about what the central bank should do to address the subprime problem.

Some participants at Thursday's meeting urged the Fed to issue a rule, as opposed to guidance, about abusive lending. A rule, said Sarah Ludwig, executive director of the New York City-based Neighborhood Economic Development Advocacy Project, would apply to all institutions that make loans.

Prior guidance, issued in 1999 and 2001, "hasn't been effective," Ludwig said.

One action the Fed is reviewing is whether to write a rule about lending only to borrowers with proven ability to repay their loans.

Edward Sivak, director of policy and evaluation for Jackson, Miss.-based Enterprise Corporation of the Delta, urged such a rule.

"We're living in the unintended consequence right now," he said.

The heat is on the Federal Reserve to use its rulemaking authority to protect subprime borrowers. Last week, House Financial Services Committee Chairman Barney Frank, D-Mass., said the Fed should use its consumer-protection power or lose it. Senate Banking Committee Chairman Christopher Dodd, D-Conn., said on June 14 that the Fed has a clear duty to extend "substantive" protections to subprime borrowers under the HOEPA law.

Meanwhile, banking and financial services trade groups are urging regulators to establish a uniform standard for both banks and non-banks that make subprime loans.

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