CALIFORNIA REINVESTMENT COALITION
COMMUNITY REINVESTMENT ASSOCIATION OF NORTH CAROLINA
NEIGHBORHOOD ECONOMIC DEVELOPMENT ADVOCACY PROJECT
THE WOODSTOCK INSTITUTE

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Consumer Groups Rally Around Mortgage Plan

Federal Regulator Proposes Rate Freeze for Risky Loans

October 19 - Four nationally recognized community reinvestment groups roundly commended the proposal of Federal Deposit Insurance Corporation chairman Sheila C. Bair to freeze so-called "hybrid" mortgages at the introductory rate.

"This is the kind of leadership that has been long absent among banking regulators and Congress and we commend Chairman Bair for her creative and timely action," said Malcolm Bush, president of Woodstock Institute.

The Chicago-based Woodstock Institute, the Neighborhood Economic Development Advocacy Project of New York, the Community Reinvestment Association of North Carolina, and the California Reinvestment Coalition welcomed this proposal after warning regulators and Congress for years that irresponsible underwriting standards among America's largest lenders would eventually fuel a crisis in the housing market.

Hybrid loans, also called 2/28s or 3/27s, were a popular mortgage product throughout 2005 and 2006. The loans offered borrowers a low introductory rate for the first 2 or 3 years then raised rates, often dramatically, for the remainder of the loan term. The result was a payment that went from barely affordable to unaffordable, sometimes overnight.

"The solution Chairman Bair proposes will help a large subgroup of homeowners who were sold hybrid loans and can afford to pay the introductory rate for the life of the loan," said Sarah Ludwig, Executive Director of the Neighborhood Economic Development Advocacy Project (NEDAP), in New York City. "Too often, however, even the introductory rate is unaffordable, and servicers will need to ensure that loans are modified on terms that are affordable to borrowers."

The solution is not a bailout, but practical solution to a complicated problem that, to date, both regulators and Congress have utterly failed to address. Although a number of steps need to be taken to protect homeowners facing the complex problem of foreclosure, Chairman Bair has recognized the magnitude of the situation and placed responsibility where it belongs—on financial institutions that lost control of their own products.

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