



DEPARTMENT OF NEIGHBORHOOD DEVELOPMENT

BOSTON'S PUBLIC FACILITIES DEPARTMENT

DIVISION OF B

THOMAS M. MENINO, MAYOR

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CHARLOTTE GOLAR RICHIE, CHIEF AND DIRECTOR

October 24, 2000

Thomas Curry
Commissioner of Banks
Division of Banks
One South Station
Boston, MA 02110

RE Proposed High Rate Mortgage Loan Regulations

Dear Mr. Curry

This letter is to follow-up on the verbal testimony given by Tim Davis on behalf of the City of Boston on September 19. I would like to reiterate that the City of Boston and the Department of Neighborhood Development applaud your efforts to tame what has become the Wild West of mortgage lending. Mortgage lending is so complicated that consumers have difficulty knowing if their lender is honest and trustworthy. The result is that an increasing number of homeowners, unknowledgeable about what constitutes poor credit and/or saddled with high levels of other consumer debt, turn to predatory lenders to solve their short-term financial problems.

The City of Boston has provided homebuyer education programs for a number of years in order to insure that first-time homebuyers are aware of their options, and we have extended our educational programs to address the needs of homeowners. While it is becoming more and more common for prospective homebuyers to take homebuying classes, it is very difficult to reach existing homeowners. Through the "Don't Borrow Trouble" program, the City of Boston is putting resources behind both educating consumers and providing counseling services for homeowners, so they can learn about the options they have, and receive foreclosure prevention counseling if they need it.

These educational efforts are a start, but ending predatory lending practices through better lending regulations is necessary. For this reason, DND strongly supports the proposed regulations.

Current high rate loan regulations do not cover either purchase mortgages or home equity lines of credit. We strongly support extending the new regulations to these products. Although some in the mortgage lending industry question extending high rate loan regulations to purchase mortgages, evidence suggests that sub-prime loans can become a significant portion of purchase mortgages. Jim Campen's recent review of 1998 HMDA data revealed that while only 4% of purchase mortgages in the City of Boston were from



sub-prime lenders, 16.4% of purchase mortgages in Springfield fell into this category. Potential homeowners are just as at risk as existing homeowners to being adversely affected by such lenders. Although they may not have as much equity as existing homeowners, they could find themselves in a mortgage that has unreasonable terms, significantly higher interest rates, and other features that spell doom to the long-term chances of keeping their home.

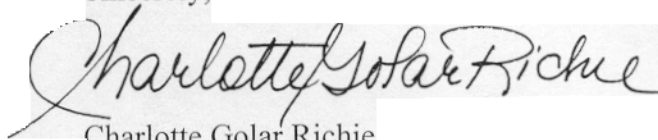
Home equity lines of credit should also be covered by these regulations. A scan of any issue of the *Banker & Tradesman* reveals that many of the mortgage liens being placed by sub-prime lenders are for loans in the \$25,000 to \$50,000 range. Of course, sub-prime loans are not necessarily "predatory", but even small loans that are unaffordable to homeowners can have a negative effect on a family's financial stability. These loans are the bread and butter of many sub-prime lenders, and so should be regulated to insure that this form of credit does not become a "loop hole" for predatory lenders to continue operating.

In working with homeowners who have received a loan from a sub-prime lender, there are some common features that are bad for consumers. One such provision is mandatory arbitration clauses, which remove an owner's right to bring a suit against the mortgage lender. In addition, pre-payment penalties are so substantial that it makes it impossible for the homeowner to refinance into a more conventional product.

Wisely, the proposed regulations address not only mortgage terms and conditions, but also the way in which lenders work with homeowners *after* the loan closing. Some lenders fail to report *good* paying histories to credit reporting agencies, denying homeowners the chance to rebuild their credit history and the ability to get a more conventional loan.

The above practices, and others, have become very common, undermining consumer confidence in the mortgage lending industry. These regulations will tell predatory lenders that their business is not welcome in Massachusetts.

Sincerely,

A handwritten signature in cursive script that reads "Charlotte Golar Richie". The signature is written in black ink on a light-colored background.

Charlotte Golar Richie
Chief and Director