Sen. Brown Opening Statement at Banking Committee's Hearing on Mortgage Credit Availability

Thursday, April 16, 2015

WASHINGTON, D.C. — U.S. Sen. Sherrod Brown (D-OH) – ranking member of the U.S. Senate Committee on Banking, Housing, and Urban Affairs – released the following opening statement, as prepared for delivery, at today's hearing on mortgage credit availability.

Brown's remarks, as prepared for delivery, follow.

Senator Sherrod Brown - Opening Statement: Hearing on Mortgage Credit Availability

April 16, 2015

Thank you, Chairman Shelby, and thank you to our witnesses for being here today.

The mortgage market is vast, complex, and interconnected.

Its impact extends from the finances of individual families in Ohio to the stability of the global financial system.

Go back to 2008 and the years before. Predatory, irresponsible lenders made dangerous, sub-prime loans – and often ignored a borrower's ability to repay.

When the real estate bubble burst less than a decade ago, families had their wealth and equity stripped from their homes, starting a chain of events that resulted in the financial crisis and subsequent economic devastation of the Great Recession.

Dodd-Frank provided a common-sense fix to the bad practices in mortgage lending that had been staring us in the face for years.

And now, five years later, some are suggesting we weaken some of those standards and head back to where we started.

In 2008, our country learned a painful lesson that not all mortgage lending is created equal.

Unscrupulous lenders offered loans that required no documentation, loans with teaser interest rates that later spiked and undermined a borrower's ability to repay, and loans where borrowers never paid down their principal. All of these practices had devastating results for families, communities, and the economy.

Borrowers with these higher-cost loans were foreclosed upon at almost triple the rate of borrowers with conforming 30-year fixed rate mortgages.

The crisis revealed a host of other harmful practices like steering borrowers to affiliated companies, kickbacks for business referrals, inflated appraisals, and loan officer compensation based on the loan product.

These practices offered little benefit to the borrower. Even more troubling, as borrowers' costs increased, so did loan officers' compensation.

Members of the organizations testifying before us today felt the impact of these practices first hand.

After the housing crash revealed the extent of the deterioration in mortgage lending standards, Congress stepped in to do what the market and regulators had refused to do.

The Dodd-Frank Act established a common-sense rule that requires mortgage lenders to ensure that borrowers have the ability to repay their home loans.

This means that lenders can no longer make a loan based on the home's value instead of the borrower's ability to pay back the loan.

Many lenders didn't follow this basic principle during the housing boom. At its peak, 27 percent of loans made were subprime products.

At the risk of making matters even more complicated, we may be in danger of overlooking other factors that have tightened credit beyond what Dodd-Frank envisioned.

In reaction to the housing crisis and their own financial positions the GSEs and FHA, each tightened lending standards and increased fees that are charged to borrowers. They announced small steps – FHA's HAWK program and the GSEs return to 3 percent downpayments - to expand credit just this winter, but their loan profiles continue to represent higher FICO scores and downpayments than historical levels.

Lender overlays – higher eligibility criteria than the GSEs or FHA –have also made mortgage credit difficult to attain.

While the ability-to-repay standard was intended to be the base standard, we heard in earlier hearings that lenders only want to make QM loans because they provide liability

protection - an additional lender overlay. However, if we expand QM eligibility in order to protect lenders, we also limit the protections for a family buying a home.

A mortgage is the largest financial transaction most families will make in their lifetime – although financing a college education isn't far behind.

As we have learned across a number of consumer financial products and services, ensuring that the mortgage process, services, and fees are transparent and understandable to borrowers is essential if they are to be successful homeowners.

Reviewing regulations for their impact on the market and possible duplication is important, but if we don't address the other challenges that restrict credit, eliminating important homebuyer protections under the cloak of access turns the clock back to 2008.

I look forward to having a conversation about all of the challenges that the housing market faces and the possible solutions.

There isn't a single answer to fix these problems.

But we can't return to the days when unscrupulous lenders can make loans that undermine a borrower's ability to repay while charging excessive fees – and put our entire economy at risk in the process.

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