CENTER FOR RESPONSIBLE LENDING

An Unfinished Mission: Making Wall Street Work for Us

Protecting Customers in the Financial System

Americans for Financial Reform and The Roosevelt Institute
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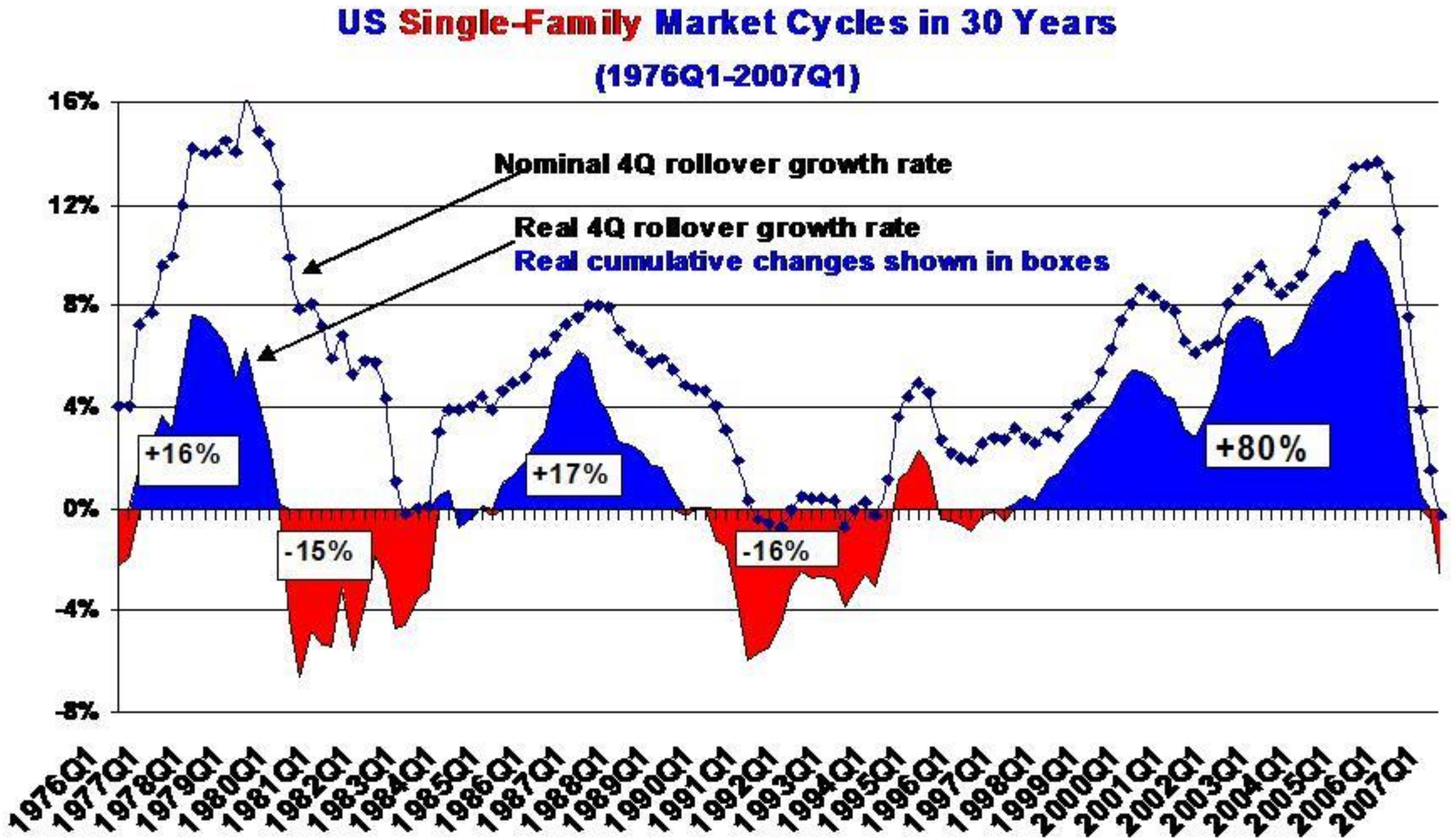
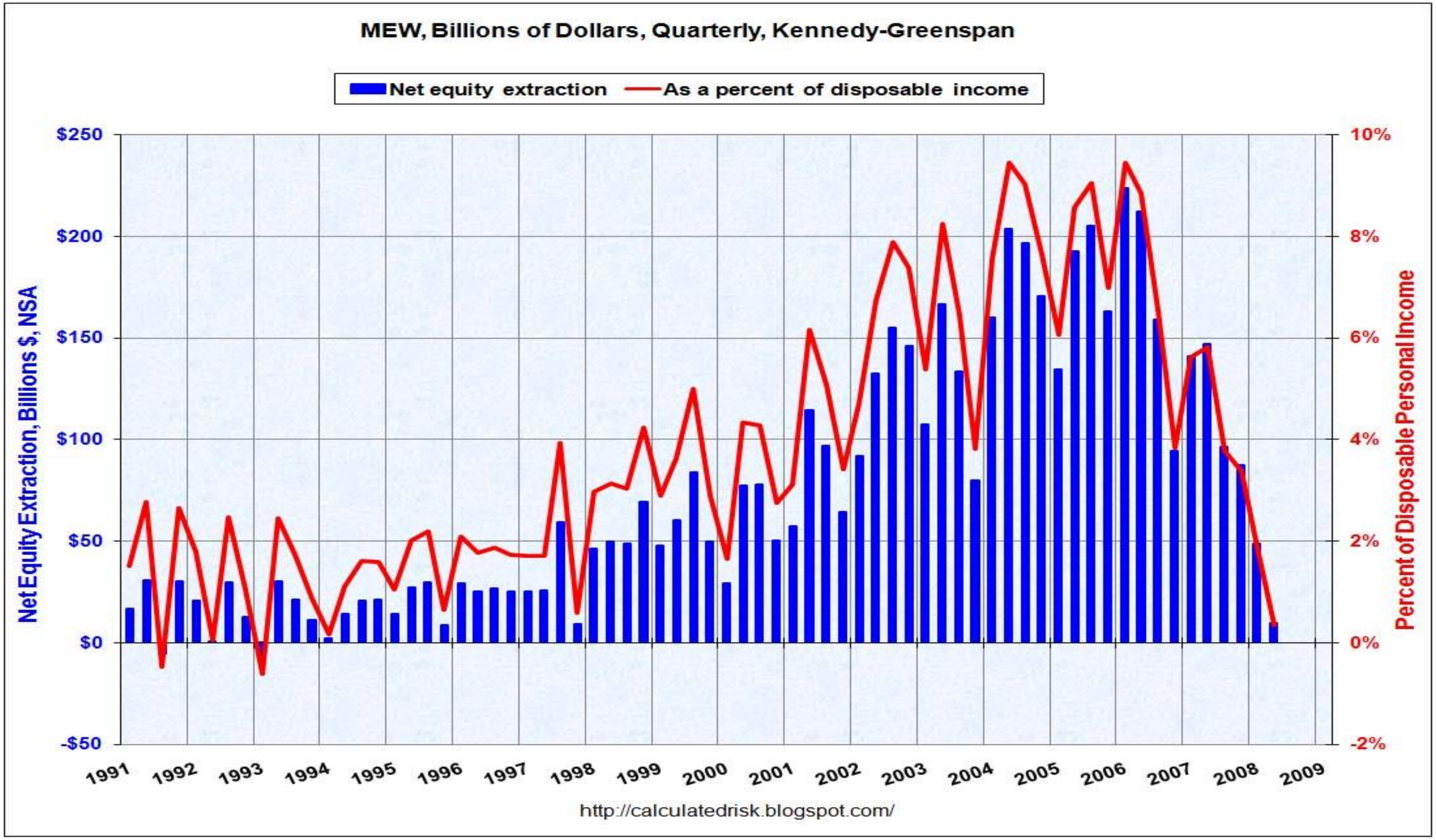
Homes Prices in Real Terms Are Mean Reverting



Impact On Consumer Finances



Drivers of Unsustainable Mortgages

- Compensation incentives
  - Mortgage brokers and lenders were paid several times more to sell exotic mortgages than they were paid to sell standard 30 year fixed rate loans
  - As one lender declared, “The market is paying me to do a no income verification loan more than it is paying me to do the full documentation loan. What would you do?”
  - These no doc and other loans carried higher interest rates, even though they often had lower initial monthly payments

Failure of Safeguards

- Ratings agencies
  - Were paid by the companies packaging the loans to sell to investors
  - Rated no doc loans as not more risky than standard loans
  - Permitted the first risk portion of subprime loan securities to be repackaged and given AAA ratings
  - The result was that securities made up of risky loans were given the same credit rating as those of safer loans
  - Rising home prices temporarily hid the unsustainability of this lending

Regulatory Failure

- Nondepository companies became major lenders and they were very loosely regulated
- Depository lenders had regulators competing for them and their supervision fees, so they provided loose oversight and preempted state protections
- The Federal Reserve had the authority and responsibility under the 1994 HOEPA law to prohibit abusive and unsafe mortgage practices, but for ideological reasons refused to use that authority until after the crisis

Mortgage Lending Standards in the Boom: A Race to The Bottom

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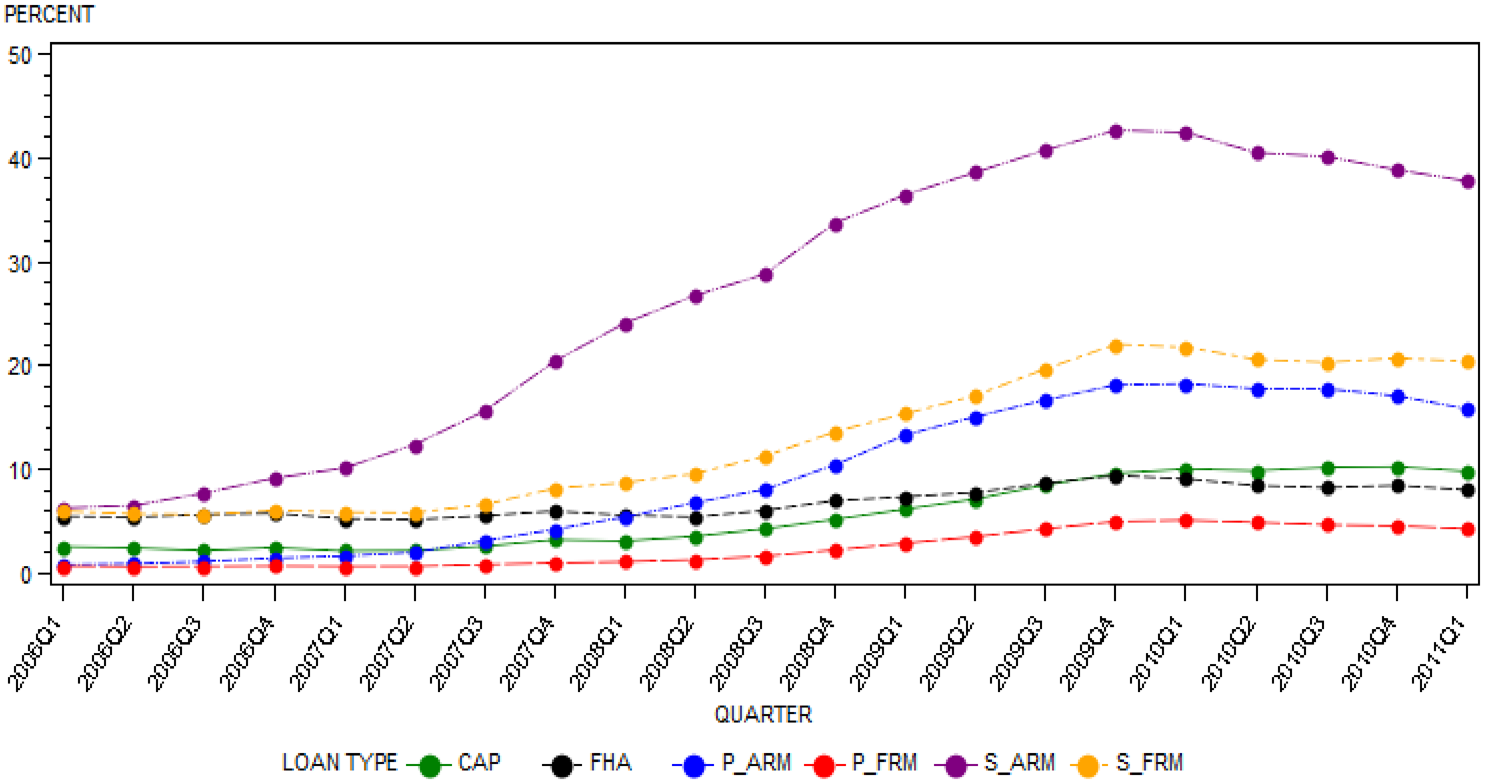
- Subprime Loans
  - 2/28 loans with built in 200+ bp teaser rate
  - 55% DTI based on the teaser rate
  - Half were no doc
  - Three fourths had no escrow
  - Majority of loans were originated by lightly supervised mortgage brokers
- Alt A loans
  - Likewise underwritten with little income documentation and extremely low teaser payments

Delinquency by Loan Type



Steering

- CRL research found that the leading factor in predicting default was the type of loan received by the borrower
- African-American and Hispanic borrowers were 2 to 3 times more likely to receive loans with abusive features as other borrowers with the same income and credit profile

Impact of Foreclosures

- Half of African-American and Hispanic borrowers received subprime loans, and nearly half of these loans will result in foreclosure
- African-American and Hispanic homeownership rates peaked in 2004 and are trending towards 40% and 46%, compared to 73% homeownership for white families
- A generation of wealth was lost from families of color
- Racial wealth disparity is at historic levels: 15 to 1

Dodd-Frank Responses

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- Ability to Repay/Qualified Mortgage rule
  - Requires income verification and ability to repay assessment by lenders on all mortgages
  - Reduces risk and volatility of mortgages and provides transparency for investors
- Special protections for subprime loans
- Multiple protections against steering of borrowers
- Made it harder for state protections to be preempted
- Reformed mortgage servicing

Consumer Financial Protection Bureau

- Has the authority and mission to establish rules for all mortgage lenders and has supervision over nondepository lenders as well as the largest banks
- Like other financial regulators, has nonappropriated funding to preserve independence
- Mortgage servicing is regulated for the first time
- Regulates other key financial products, such as student loans, credit cards and part of auto lending

Ongoing Challenges

- The CFPB has generally been strong and effective, but the QM rule and the servicing rules had some compromises to industry, and the impact of these has to be carefully monitored
- Industry is fighting the mortgage reforms at the agency and in Congress, seeking delays, loopholes and repeal
- The CFPB is under continued attack to its funding and structure
- General anti-regulatory bills threaten all agencies

Summary

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- The mortgage market failure triggered the financial crisis and this $10 Trillion market remains a huge part of the economy.
- Dodd-Frank fundamentally reformed this market, greatly reducing the risk to consumers and the overall economy
- The CFPB is equivalent in the consumer finance market to the creation of the EPA
- Protecting the Dodd-Frank mortgage provisions and the CFPB is critical to lasting financial reform