

OCTOBER 17, 2003

**SCHAKOWSKY UNVEILS
SAVE OUR HOMES ACT OF 2003:
H.R. 3322 FORECLOSES ON PREDATORY LENDERS AND OFFERS SOLID
PROTECTION FOR HOMEOWNERS**

WASHINGTON, D.C. - U.S. Representative Jan Schakowsky (D-IL), ranking Democrat on the Commerce, Trade and Consumer Protection Subcommittee, unveiled the Save Our Homes Act of 2003, H.R. 3322, legislation that offers homebuyers and consumers real protection against predatory lenders.

The Save Our Homes Act of 2003 would set minimum federal standards to attack predatory practices in the mortgage industry such as high interest rates, single premium insurance products, loan flipping and churning, unilateral call provisions, and loans made without regard to the borrower's ability to pay. Schakowsky's bill, however, would not preempt stronger state and local consumer protection laws.

"Predatory lenders are thieves that prey on the elderly and most financially vulnerable among us. It is shameful that the Republican Congress has refused to act in the past six years to protect consumers," said Schakowsky, who is introducing her third anti-predatory lending legislation in as many Congresses.

"Hard fought victories for consumers in cities like Chicago are critical in our fight against predatory lenders, but a national law is necessary to guarantee that they are put out of business," Schakowsky added.

The Coalition for Responsible Lending estimates that homeowners lose \$9.1 billion annually due to predatory loans. In Chicago, foreclosures increased by 74% between 1993 and 2001. Remarkably, over that same time period, foreclosures in the subprime market increased by 500%.

The Save Our Homes Act is supported by leading consumer rights organizations, such as the Association of Community Organizations for Reform Now (ACORN), National People's Action, and National Community Reinvestment Coalition.

Attached is a one-page summary of H.R. 3322

H.R. 3322 "Save Our Homes Act of 2003"-Introduced by Representative Jan Schakowsky (D-IL) Chief Deputy Whip, Ranking Member of the Commerce, Trade, and Consumer Protection Subcommittee

TRIGGERS

Current Law:

Federal law only protects consumers seeking to obtain a home equity loan (Home Ownership and Equity Protection Act or HOEPA). Those current protections include disclosure requirements, limitation on prepayment penalties and balloon payments, and prohibition on direct payments to contractors from lender. Those protections are triggered if:

- **the loan interest rate exceeds 8 points over comparable Treasury Bonds; or**
- **the loan points and fees exceed \$480 or 8% of total loan, whichever is greater.**

Unfortunately, HOEPA covers a small fraction of all high cost loans.

Save Our Homes Act of 2003:

Save our Homes Act expands protection for consumers seeking to obtain a home equity loan and a home purchase loan. Those protections are triggered if:

- **the loan interest rate exceeds 5 points over comparable Treasury Bonds; or**
- **the loan points and fees exceed \$1000 or 3% of the total loan, whichever is greater.**

The legislation protects consumers from predatory lenders by prohibiting:

- **prepayment penalties for high cost loans;**
- **making loans without regard to a consumer's ability to repay;**
- **financing fees in excess of the 3% of the total loan or \$600;**
- **unilateral balloon payments, which force consumers to refinance at a higher interest rate and pay higher fees;**

- **loan churning, or flipping. (The practice of frequently refinancing loans to create opportunities to raise interest rates or charge more fees);**
- **mandatory arbitration clauses;**
- **single-premium credit insurance;**
- **negative amortization, which is the practice of folding unpaid interest back into the principal and, in effect, charging interest on interest;**
- **encouraging default;**
- **writing contracts in language different from the language used in negotiation;**
- **signing contracts with blanks to be filled out later;**
- **loans designed to evade the provisions of this law; and**
- **coercing appraisers.**

SCOPE

Current Law:

- **Only lenders can be held liable under HOEPA.**

Save Our Homes Act of 2003:

- **Expands coverage to include mortgage brokers.** If a person brokers a predatory loan or issues a security backed by a predatory loan (thus giving predators the money to make more loans), then they would be liable for the damages allowed under this bill.
- **Provides a federal floor rather than a ceiling for consumer protections.** State and local governments could provide additional protections for homeowners.

ENFORCEMENT UNDER SAVE OUR HOMES ACT

- **Increases the penalties so consumers can recover all interest, fees, and principal from lenders and brokers.**

- **Ensures the rights of class actions suits.**

- **Expands the Home Mortgage Disclosure Act to track the interest rate on home loans by census tract, income, race and gender to enable regulators and the public to identify predatory lenders.**

CONSUMER EDUCATION UNDER SAVE OUR HOMES ACT

- **Requires HUD certified mortgage counseling with high cost mortgages.**