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Statement of Carolyn Maloney, Chair
Joint Economic Committee Hearing
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As prepared for delivery

Good morning. I would like to welcome our distinguished panel of witnesses who are here to examine the economic impact of reverse redlining, where minority borrowers and senior citizens have been targeted to receive unnecessarily expensive mortgages.

I thank Congressman Cummings and his staff for their help bringing in witnesses from Baltimore, Maryland, one of several states and localities that is investigating or have recently brought suit against lenders over practices that may have violated fair lending or civil rights laws by deliberately steering minorities and the elderly into more costly subprime loans.

Two years ago, problems in the subprime mortgage markets touched off an economic crisis that is still unfolding. Today, almost 1 in 6 subprime mortgages are in foreclosure compared to 1 in 40 prime mortgages in the United States.

As subprime foreclosures have risen over the past two years, minority homeownership rates have fallen at a much faster pace than for non-minority home owners.

The pain of rising foreclosures is being felt in communities all across the country, as the ripple of mounting losses spreads to borrowers, lenders, governments, and neighbors. In some areas, once thriving neighborhoods have been transformed into boarded-up ghost towns.
Concentrated foreclosures have spillover effects on neighboring properties, increasing crime and vandalism, and lowering surrounding property values.

A fundamental problem is that the financial incentives of mortgage companies and mortgage brokers are not aligned with the best interest of their borrowers.

Higher commissions for higher interest loans, creates the incentive for mortgage brokers to sell the most expensive products to those who can least afford them. Low or no documentation loans, which rely on stated income rather than W-2 forms, provide an avenue for lenders to evade state law by making loans appear affordable, even when they are not.

Evidence continues to come to light that many of the subprime borrowers who had paystubs to prove their employment – and may have qualified for prime loans – were steered into more costly no doc loans by some lenders.

In my home state of New York, Brooklyn and Queens have the highest concentrations of low and no documentation subprime loans compared to other parts of the state. There is a particularly high concentration of these loans in Astoria, which I represent.

Congress and the President have taken steps to strengthen the economy, keep families in their homes, expand affordable mortgage opportunities for families, and rein in abusive lending. But more must be done to stop bad loans from being made in the first place.

We need to return to sensible principles that require lenders to assess borrowers' ability to pay over the whole life of the loan. But we also need to strike a balance between making sure borrowers can repay the loans they get and helping borrowers who can repay a loan get one.

I have high hopes that the President's proposed Consumer Financial Protection Agency will play a key role in strengthening consumer protections against predatory practices in the future.

The Administration's proposal to eliminate the current preemption of state laws regarding anti-predatory lending for national banks, thrifts, and federal credit unions will allow states to adopt and enforce stricter laws for institutions of all types, regardless of charter.

Stopping abusive lending practices that have contributed to the current foreclosure crisis and returning to healthy, fair lending principles will provide a sound basis for economic growth and recovery.

I look forward to the testimony of our witnesses.

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