

**Informed Consumer Choice in the Subprime Market**  
**Remarks delivered by Janis Bowdler**  
**June 9, 2006**

Good morning. My name is Janis Bowdler, and on behalf of the National Council of La Raza I would like to thank the Federal Reserve for hosting another round of HOEPA hearings.

I am honored to be part of such a distinguished panel. Though I do not have as much experience as others here today, I bring NCLR's expertise and perspective on this important issue.

As a funder of housing counseling, NCLR has been helping Latino families become homeowners for nearly ten years. From our perspective, the question of how consumers understand and navigate today's home lending market is not only timely; it's critical. The marketplace is changing rapidly, making it difficult for even the most astute consumers to keep pace.

Research and reports from field practitioners indicate that many borrowers are unaware of all the mortgage options available to them. Many cannot distinguish between the products for which they potentially qualify or the responsibilities of all parties involved.

As part of my remarks, I will briefly describe how the structure of today's mortgage market contains artificial to fair and responsible mortgage products for Latino families. I will also touch on best practices for educating consumers concerning current market dynamics and conclude with three recommendations.

Inadequate and incorrect information puts both lenders and consumers at a disadvantage. In the case of lenders, some of the tools they use to assess creditworthiness and price mortgages do not capture enough relevant information about Latino families. Many Latino borrowers do not have sufficient credit histories and are negatively impacted by automated underwriting. In some cases, this results in an otherwise creditworthy family being referred to the subprime market. In the meantime, many expensive and unethical lenders are rushing to serve the portion of the Latino community left behind by the rest of the mortgage industry.

Consumers also face information barriers. The mortgage system is complicated and confusing for most consumers, and the information necessary to make fully-educated decisions is often unavailable. This is especially true in the subprime market where the black box of Risk-Based Pricing is new and unfamiliar to many

consumers. Moreover, research has shown that borrowers of risky mortgage products such as Adjustable Rate Mortgages (ARMs), payment option mortgages, and interest-only loans are often unaware of the impact rising interest rates will have on their payments.

As a result of these information barriers, few consumers truly shop for their mortgage. Instead, borrowers and lenders rely heavily on mortgage brokers to shop and gather information on their behalf. This is especially true for Latinos. Bilingual and bicultural brokers market themselves as agents who can be trusted to find the best deal for consumers. To lenders, they have positioned themselves as a less expensive alternative to retail operations with market penetration.

However, this means that many consumers shop for mortgages based on relationships rather than on products and pricing. This is not by accident; mortgage brokers, who originate around two-thirds of the nation's mortgages, market themselves. Most consumers do not understand that the broker is an independent agent who is not professionally or legally required to find borrowers a loan suited to their needs. Many are unaware that their broker has an incentive to push the cost of their loan higher.

Consequently, these worrisome market inefficiencies signal problems with the structure of our mortgage market. Latinos and other minorities are more likely than their White counterparts to have subprime, expensive, and high-risk mortgage products.

Through our funding support for housing counseling, NCLR supports the concept of a market intermediary to help underserved families access homeownership. Currently, housing counseling is the most effective method for educating vulnerable consumers on their mortgage options. Housing counselors are without a financial interest in the terms of the borrower's loan and can provide objective, individual advice. Unfortunately, the housing counseling infrastructure is not adequate to meet the current demand of its services. However, even with the infrastructure, well-informed consumers would need a regulated mortgage market. Better consumer protections and accountability standards are necessary to protect vulnerable families.

NCLR makes the following recommendations to improve the structure of the marketplace for Latinos and other underserved borrowers:

- Improve accountability by creating suitability and anti-steering standards for lenders and mortgage brokers, including a provision that expressly limits steering.
- Expand existing consumer protections to better reflect the new dynamics of the mortgage market and provide families with meaningful remedies.
- Public entities and private mortgage companies must invest in housing counseling as a meaningful way to bridge the information gaps between underserved borrowers and homeownership opportunities.