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NeighborWorks

June 24, 2002

Regulation Comments  
Chief Counsel's Office  
Office of Thrift Supervision  
1700 G Street, NW  
Washington, D.C. 20552

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Attention: Docket No. 2002-17

To Whom It May Concern:

As a member of the National Community Reinvestment Coalition, Allentown Neighborhood Housing Services (NHS), Inc. strongly supports the proposed changes to the Office of Thrift Supervision's regulations implementing the Alternative Mortgage Transaction Parity Act (AMTPA). Allentown NHS has been involved in combating predatory lending for several years. We have repeatedly seen instances in which unscrupulous lending institutions have used prepayment penalties to trap borrowers in abusive loans. Borrowers have also faced stiff late fees associated with abusive loans. The current AMTPA regulations have facilitated the proliferation of prepayment penalties and late fees in predatory loans.

AMTPA has outlived its usefulness. Congress passed AMTPA in 1982 during a high interest rate environment in order to provide state-chartered institutions the ability to offer adjustable rate mortgages (ARMS) and other alternative mortgages. At that time, many states had outlawed ARMS. From 1983 to 1996, the Federal Home Loan Bank Board (the OTS' predecessor agency) and the OTS granted state-chartered thrifts and non-depository institutions preemption under AMTPA from state law on alternative mortgages so that they could offer ARMS. During this time period, however, the Bank Board and the OTS did not allow institutions to preempt state law on alternative mortgages that limited prepayment penalties and late fees. In 1996, the OTS inexplicably reversed course and allowed institutions to preempt state limits regarding prepayment penalties and late fees on alternative mortgages.

This single change in the OTS regulations during 1996 significantly contributed to the dramatic increase in predatory lending of the last few years. Non-depository institutions and mortgage companies that were state-chartered applied prepayment penalties at such a high rate that the great majority of sub-prime borrowers (about 80 percent) now have prepayment penalties. In contrast, only 2 percent of prime borrowers have prepayment penalties on their loans according to Standard and Poor's. This huge difference in the application of prepayment penalties suggests that prepayment penalties trap sub-prime borrowers into abusive loans, and that sub-prime borrowers do not freely accept prepayment penalties as a means of lowering their interest rates.

Allentown NHS is currently working with a family who needed \$5,701.28 for a land contract payoff. An independent mortgage company convinced the household, who had some medical problems and needed to make some repairs to their property, to take out a \$72,000 loan, with an interest rate of 11.375 percent. Settlement fees totaled almost \$7,000.00, \$8,000.00 was disbursed for the land payoff and local taxes, leaving the household with \$57,306.39. There is a prepayment penalty if the original principal amount of the note is more than \$50,000.00. The prepayment charge "will be equal to six months advance interest on the amount of any prepayment that, when added to all other amounts prepaid during the twelve month period immediately preceding the date of the prepayment, exceeds twenty percent of the original principal amount of this Note". Late fees charged are six percent of the overdue payment of principal and interest. The monthly payment of this loan is \$835.38, with no escrows for taxes and insurance being collected. More than likely, this is the type of loan that will continue to be flipped.

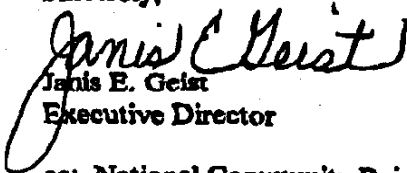
The OTS correctly notes in its proposal that prepayment penalties and late fees are not integral elements of alternative mortgages. The OTS also reports that all states but one now allow ARMS, meaning the AMTPA is no longer needed. Instead, predatory lenders are using AMTPA and the existing OTS regulations to evade state law on alternative mortgages and prey upon unsuspecting and vulnerable borrowers. Allentown NHS cannot emphasize enough how urgent it is to remove AMTPA's preemption of state limits regarding prepayment penalties and late fees on alternative mortgages.

Allentown NHS notes that the OTS could have made its proposal stronger. The AMTPA statute provides OTS with the discretion to prescribe general limits on loan terms and conditions. The OTS could have adopted a two-year limitation on prepayment penalties for the alternative mortgages issued by all the institutions it regulates including federally chartered thrifts, state-chartered thrifts and non-depository institutions. The limitation would also stipulate the maximum amount of the prepayment penalty at one percent of the loan amount. Currently, victims of predatory lending are confronted with paying about 5 percent or higher of the loan amount as a prepayment penalty.

Allentown NHS believes that limiting prepayment penalties across the board would have achieved a greater degree of uniformity in the regulatory framework for different institutions. If the OTS does not adopt a more prescriptive approach, Allentown NHS strongly urges the OTS to stick with its proposal and to resist industry calls to weaken its proposed regulatory changes.

Allentown NHS applauds the OTS for proposing this change to their AMIPA regulations and asks the OTS to implement this change as quickly as possible after the close of the public comment period.

Sincerely,

  
Janis E. Geist  
Executive Director

cc: National Community Reinvestment Coalition