

Mason Square Community Development Corporation

756 State Street
Springfield, MA 01109

Phone: 413-739-7211 ext. 119, 108
Fax: 413-732-9364
Email: masoncdc@excite.com

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

Attention: Docket No. 2002-17

To Whom It May Concern:

As a member of the National Community Reinvestment Coalition, Mason Square Community Development Corporation strongly supports the proposed changes to the Office of Thrift Supervision's regulations implementing the Alternative Mortgage Transaction Parity Act (AMTPA). Mason Square Community Development Corporation has been involved in combating predatory lending for several years. We have repeatedly seen instances in which unscrupulous lending institutions have used prepayment penalties, etc. to trap primarily low-income 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 (ARM's) and other alternative mortgages. At that time, many states had outlawed ARM's. 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 ARM's and other alternative mortgages. 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 subprime borrowers (about 80 percent) now have prepayment penalties. In contrast, only two 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 subprime borrowers into abusive loans, and that subprime borrowers do not freely accept prepayment penalties as a means of lowering their interest rates.

As part of its Consumer Rescue Fund initiative, for example, the National Community Reinvestment Coalition recently represented an elderly minority couple who had owned their home in the District of Columbia for nearly 40 years. In order to pay medical expenses, an independent mortgage company convinced the couple to take out an adjustable rate mortgage with a prepayment penalty of over \$13,000 and a loan payment that exceeded the couple's monthly income. Faced with imminent foreclosure, the couple attempted a "short sale" of their home, but was almost unable to complete the sale due to the prepayment provision. After NCRC's intervention, the sale took place. This is the type of loan that has been allowed by OTS AMTPA regulations.

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 allows ARM's, meaning that 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. Mason Square Community Development Corporation cannot emphasize enough how urgent it is to remove AMTPA's preemption of state limits regarding prepayment penalties and late fees on alternative mortgages.

Mason Square Community Development Corporation 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. In the case of prepayment penalties, 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. Mason Square Community Development Corporation believes that this approach 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, Mason Square Community Development Corporation strongly urges the OTS to stick with its proposal and to resist industry calls to weaken its proposed regulatory changes.

We applaud the OTS for proposing this change to their AMTPA regulations and ask the OTS to implement this change as quickly as possible after the close of the public comment period.

Sincerely,



Glenn Davis
Executive Director

c: National Community Reinvestment Coalition