Congressman José E. Serrano

Chairman, House Appropriations Subcommittee on Financial Services and General Government

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Opening Statement of Chairman José E. Serrano
Hearing on Consumer Protection in Financial Services:
Subprime Lending and Other Financial Activities
February 28, 2008

Today, we will explore an issue that touches upon several of the agencies under the jurisdiction of this subcommittee, and that is consumer protection. The consumer protection issue has been in the spotlight in a number of ways in recent months, and this subcommittee has followed the issue closely. Today, we will continue to look at this issue and focus specifically on financial services.

All consumers are at risk of being victimized by financial predators; however, it is often our most vulnerable populations who bear the brunt of these crimes. Each year countless working class parents who are struggling to achieve the American dream tragically have their hopes of upward mobility crushed by the practices of dishonest businesses.

While their plight often goes unrecognized, the enduring housing crisis has opened the eyes of many Americans to their struggles, and made us all aware of the devastating effects such exploitation can have on the strength of our economy. The impact of subprime mortgages on borrowers continues to receive much attention, and this subcommittee will examine this topic. Consumer protection concerns are not limited to subprime mortgages, however. There are numerous other financial services being offered that have generated worries over the fair treatment of consumers. Examples include certain loan products – such as refund anticipation loans or payday loans – accompanied by excessive rates of interest, credit or debit cards with hidden fees, and illegal or abusive debt collection. In many cases, the problems are in the way financial products are marketed, such as in the cases of inadequate or misleading disclosure of credit terms or the advertising of so-called “credit repair” programs making false promises.

With regard to mortgage lending, alternative mortgages in many cases have been a vehicle for bringing the dream of homeownership to many families who would otherwise have not qualified for a mortgage. But, as we have seen, many local housing markets have floundered in the past couple years. The median price of a single-family home fell in 2007 for the first time in at least four decades. At the same time, hundreds of thousands of subprime loans are resetting to higher interest rates, and many of the holders of these loans are unable to refinance or sell their homes due to the weakening housing market. Foreclosures and late payments rose in January to the highest level on record.

The rise in foreclosures has had implications not just for families losing their homes. Whole neighborhoods have seen declines in property values and tax base as a result of being near foreclosed homes. In New York City, for example, 400,000 homes are experiencing or will experience devaluation as a result of being located near foreclosed homes.

In addition, minority communities have been and will continue to be hardest hit by the foreclosure crisis, since these communities received a disproportionate share of subprime loans in recent years. In 2006, 52% of the home loans that went to African-American families and 41% of the home loans that went to Latino families were subprime loans. I am deeply concerned that many borrowers in these communities were steered specifically toward subprime loans even though the borrowers in many cases were fully qualified to receive conventional loans.

Minority communities have also been disproportionately affected by other forms of financial fraud or deception. A 2005 Federal Trade Commission survey found that "Hispanics and African Americans experience more fraud." In September 2007, the FTC charged telemarketers who were promoting advance fee credit cards with deceiving more than 30,000 Spanish-speaking consumers.

The Treasury Department has begun to address the issue of foreclosures, most notably in the HOPE NOW initiative. Under this voluntary initiative, participating mortgage loan companies are agreeing to institute 5-year interest rate freezes for certain families faced with the prospect of foreclosure. While many people at the Treasury Department have worked extremely hard on this initiative, I am concerned that: (1) the proposal is still a voluntary initiative, and (2) a great many borrowers who are facing foreclosure are not eligible. Just how many imminent foreclosures are not addressed by this initiative? Secretary Paulson himself has acknowledged that we have not yet seen the worst of the foreclosure crisis. We must continue to explore what options exist to minimize the numbers of foreclosures.

Joining us today to discuss these issues are two panels of experts. On the first panel, we have Donna Gambrell, the Director of the Community Development Financial Institutions Fund, or CDFI Fund, at the Treasury Department. Both the Treasury Department as a whole and the CDFI Fund specifically have been involved in these issues. Also on our first panel is Lydia Parnes, Director of the Bureau of Consumer Protection at the Federal Trade Commission. The FTC has been very active in the area of consumer protection in financial services.

On our second panel, we have several distinguished non-government witnesses. Michael Calhoun is president of the Center for Responsible Lending, a non-profit research and policy organization which works to protect homeownership and to eliminate abusive financial practices.

Janet Murguia is the President and CEO of the National Council of La Raza, the largest national Hispanic civil rights and advocacy organization in the United States. Among many other efforts, La Raza has also worked to increase homeownership and to eliminate predatory lending.

Chris Stinebert is President and CEO of the American Financial Services Association, the national trade association for the consumer credit industry. The association has nearly 350 active members, ranging from large national financial services to small, independently-owned consumer finance companies.

And last but not least, Greg Lobo Jost is Deputy Director of the University Neighborhood Housing Program and a member of the Board of Directors of the Neighborhood Economic Development Advocacy Project in the Bronx, NY. Mr. Lobo Jost is active in creating, financing, and preserving affordable housing for the residents of the northwest Bronx.

Thank you all, and we very much appreciate all of you joining us today and sharing your insights into these important issues.

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Congressman José E. Serrano has represented the Bronx in Congress since 1990. He is the Chairman of the House Appropriations Subcommittee on Financial Services and General Government, which oversees the budget of the Treasury Department and the FTC, among other agencies.