repayment terms that were difficult or impossible
for the homeowners to meet.

HOEPA requires creditors to provide
additional disclosures at least three days before
consumers become obligated for such loans. It
prohibits lenders from including certain terms in
their loan agreements; for example, balloon payments
for short-term loans and from relying on a
consumer's home as a source of repayment without
considering whether the consumer's income, debt, and
employment status would support repayment of the
debt.

HOEPA also requires that the Board is to
hold hearings periodically to keep abreast of the
home equity credit market targeted by HOEPA, which
is one of the reasons we're here today. We also
held hearings in 1997, about two years after HOEPA
became effective.

I would ask Governor Gramlich now if you
would care to make a few opening remarks.

GOVERNOR GRAMLICH: Thank you very much,
Glenn. It's a pleasure for all of us to be here in
Charlotte. This is the branch of the Richmond Fed which is the one that encompasses Washington, and North Carolina is also, as you know, the home of one

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of the most significant state laws in this general area.

The last few years have seen enormous growth in subprime lending. The statistics indicate that the growth in subprime lending has been roughly twice the rate of growth of normal mortgage lending. This is mainly, surely, a good thing in the sense that this growth in the subprime lending market has brought credit to low and moderate income households that, had the growth not occurred, they probably would have been denied credit, so there are some good things going on out there. But there are also seemingly some abuses.

There have been a series of anecdotes, a series of TV programs mentioning some of these abuses, there has been a rise in the foreclosure rate, and these adverse statistics have attracted our attention. This mixed message symbolizes some of the difficulties that we have today. We want to encourage the growth in the subprime lending market, but we also don't want to encourage the abuses;
indeed, we want to do what we can to stop these
abuses.

The Fed has some authority in this area,
mainly under HOEPA, the law that Glenn just referred

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to; there's also some authority under some other
statutes. These hearings are fundamentally about
whether we should use this authority or what parts
of the authority we should use. We want to keep a
relatively analytical focus and focus on specific
things that the Fed might do, trying to make sure
that, in technical talk, the benefits of what we do
outweigh the costs.

One thing that we should all keep in mind is
that the Federal Reserve can't do it all. If
predatory lending is as significant a problem as
some people are alleging, there will have to be a
lot of types of activities. Other regulators of
financial institutions may have to make some
changes. The private sector could play a role in
checking some of its own practices; say, in the
secondary mortgage market or other such aspects.

Consumer education is undoubtedly an
important facet here because a lot of what we're
going to be talking about are people who are taking
loans that they probably wouldn't have taken if they
had fully understood the implications of all of the
transactions. And so the Fed has already started on
an effort to improve financial literacy, consumer
education, and will keep doing that, as will other

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agencies. So a multifaceted approach will be
undoubtedly necessary. This should not distract
attention from the Fed because there are some things
we can do, but just so that nobody has the
impression that we can do it all. We certainly
can't.

As Glenn mentioned, these hearings build on
others the Board held back in '97. Those hearings
led to a report that we made to the Congress jointly
with HUD suggesting a number of legislative options,
some of which are still on the table, none of which
have been enacted, but some are still on the table.

This year both the Treasury and HUD had
other hearings and they culminated in a report that
was just made jointly by those agencies that had a
number of suggestions for the Federal Reserve. This
Treasury-HUD report had a lot of suggestions -- only
a minority of these were for the Federal Reserve but
there were some -- and these suggestions and others
that people raise will be the focus of these
hearings.

So at this point I will stop and again thank
you all for attending and for speaking and helping
us with what I think is a difficult problem and one
on which the Federal Reserve will try to use its

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authority wisely. Thank you.

MR. LONEY: Thank you, Governor Gramlich.
The morning, the way we set this up, is as follows.
The morning will be devoted to discussions of ways
the Board might use its rule-writing authority under
TILA and HOEPA to curb predatory lending practices
in home equity lending while preserving access to
credit for borrowers with less than perfect credit.

I want to emphasize that what we would like
to talk about at both this morning and this
afternoon at the other hearings that we're going to
hold is practical, useful, sensible ways that we can
use the Board's authority, as Governor Gramlich
said, to try to address this issue, and keep it as
constructive and useful as we can.

This afternoon, however, we're also going to
be discussing alternatives to regulation that might
address predatory lending, such as consumer outreach
and education, and hear about studies or research on subprime or equity lending that would inform the Board in its deliberations.

What we're going to do is, we're going to start each session with brief opening remarks by the participants and follow that with what we hope will be a round table discussion of the various issues.

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We've also set aside time to hear from members of the public, and anyone in the audience who wishes to participate in the open-mike session later in the afternoon and is not already signed up outside -- I don't know if it's outside this room or downstairs, there's a sign-up sheet out there -- should do so. This list will be used to order the appearances and will help us gauge the length of time the participants may be asked to observe in expressing their views.

Let me start by just pointing out a few simple, I hope, rules of procedure for this morning's session. We are asking -- because of the fact that time will be very tight, we're asking that the panelists confine their prepared remarks to about three minutes, and so therefore you should be thinking about really what's the important point you
want to make about this matter as you prepare to speak. We are going to have a timekeeper, this gentleman over here, and he's going to give you the high sign at about one minute to go. I would ask that you be considerate of the others who are speaking and observe the time constraints as best we can.

When I call on you, I would ask that you introduce yourselves and indicate the organization that you represent. We do have a very varied panel; I think it'll be a very useful discussion because of the fact that it is so varied.

What we will do is we'll start with Mr. Lehman over here when we get ready and proceed to his left around the room, and each panelist will present prepared remarks if they wish to do so. There will be a few questions maybe for clarification at the end of your individual statement, but a general discussion, hopefully, again, in the form of some kind of a round table, will follow.

We'll discuss the possible changes to HOEPA's scope from about the end of the panelists' introductory remarks to about 10:30, then we'll
break for about ten minutes, and then reconvene to discuss possible additional restrictions or prohibitions for specific acts or practices under HOEPA for the rest of the morning until lunch.

Again, let me emphasize that we're particularly interested in concrete, practical suggestions about how the Board can use its authority under HOEPA and we would like for the period after the prepared remarks to be in the nature of a give-and-take discussion, taking into account time constraints. We do want to try to get to as many of the questions the Board posed in the notice of these hearings as possible.

I would also point out that the proceedings are being recorded as we speak, and the young lady has asked that everybody try to accommodate her by speaking one at a time. Is that good enough? Okay.

So with that introduction, and assuming there are no questions about the procedures, Mr. Lehman, if you would begin.