



# The Federal Reserve Board

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## Public Hearing on Home Equity Lending

July 27, 2000

### Transcript

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FEDERAL RESERVE PUBLIC HEARING

JULY 27, 2000

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9:00 a.m.

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HELD AT THE FEDERAL RESERVE BANK OF RICHMOND

CHARLOTTE, NORTH CAROLINA

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

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

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

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

21                        GOVERNOR GRAMLICH:    Thank you very much,  
22          Glenn. It's a pleasure for all of us to be here in

23 Charlotte. This is the branch of the Richmond Fed  
24 which is the one that encompasses Washington, and  
25 North Carolina is also, as you know, the home of one

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1 of the most significant state laws in this general  
2 area.

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

14 There have been a series of anecdotes, a  
15 series of TV programs mentioning some of these  
16 abuses, there has been a rise in the foreclosure  
17 rate, and these adverse statistics have attracted  
18 our attention. This mixed message symbolizes some  
19 of the difficulties that we have today. We want to  
20 encourage the growth in the subprime lending market,  
21 but we also don't want to encourage the abuses;

22 indeed, we want to do what we can to stop these  
23 abuses.

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

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

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

18 Consumer education is undoubtedly an  
19 important facet here because a lot of what we're  
20 going to be talking about are people who are taking

21 loans that they probably wouldn't have taken if they  
22 had fully understood the implications of all of the  
23 transactions. And so the Fed has already started on  
24 an effort to improve financial literacy, consumer  
25 education, and will keep doing that, as will other

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

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

13 This year both the Treasury and HUD had  
14 other hearings and they culminated in a report that  
15 was just made jointly by those agencies that had a  
16 number of suggestions for the Federal Reserve. This  
17 Treasury-HUD report had a lot of suggestions -- only  
18 a minority of these were for the Federal Reserve but  
19 there were some -- and these suggestions and others

20 that people raise will be the focus of these  
21 hearings.

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

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1 authority wisely. Thank you.

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

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

16 This afternoon, however, we're also going to  
17 be discussing alternatives to regulation that might  
18 address predatory lending, such as consumer outreach

19 and education, and hear about studies or research on  
20 subprime or equity lending that would inform the  
21 Board in its deliberations.

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

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

11 Let me start by just pointing out a few  
12 simple, I hope, rules of procedure for this  
13 morning's session. We are asking -- because of the  
14 fact that time will be very tight, we're asking that  
15 the panelists confine their prepared remarks to  
16 about three minutes, and so therefore you should be  
17 thinking about really what's the important point you

18 want to make about this matter as you prepare to  
19 speak. We are going to have a timekeeper, this  
20 gentleman over here, and he's going to give you the  
21 high sign at about one minute to go. I would ask  
22 that you be considerate of the others who are  
23 speaking and observe the time constraints as best we  
24 can.

25 When I call on you, I would ask that you

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1 introduce yourselves and indicate the organization  
2 that you represent. We do have a very varied panel;  
3 I think it'll be a very useful discussion because of  
4 the fact that it is so varied.

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

14 We'll discuss the possible changes to  
15 HOEPA's scope from about the end of the panelists'  
16 introductory remarks to about 10:30, then we'll



17 break for about ten minutes, and then reconvene to  
18 discuss possible additional restrictions or  
19 prohibitions for specific acts or practices under  
20 HOEPA for the rest of the morning until lunch.

21 Again, let me emphasize that we're  
22 particularly interested in concrete, practical  
23 suggestions about how the Board can use its  
24 authority under HOEPA and we would like for the  
25 period after the prepared remarks to be in the

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1 nature of a give-and-take discussion, taking into  
2 account time constraints. We do want to try to get  
3 to as many of the questions the Board posed in the  
4 notice of these hearings as possible.

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

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