OPENING STATEMENT OF CHAIRMAN SPENCER BACHUS
'SUBPRIME LENDING: DEFINING THE MARKET AND ITS CUSTOMERS'
MARCH 30, 2004

Thank you, Chairman Ney for convening this joint hearing of our two subcommittees to review issues related to the subprime mortgage lending industry in the United States. This is the second in a series of hearings on subprime lending. In November we held a hearing which examined ways to eliminate abusive lending practices in the subprime lending market while preserving and promoting affordable lending to millions of Americans. This hearing will focus on the dynamics of the subprime lending market and its ability to offer more customized mortgage products to meet customers' varying credit needs. This hearing should help us to identify the typical subprime borrowers and the advantages and disadvantages the market poses to the financial security of these consumers.

Over the last decade or so, with low interest rates, a competitive marketplace, and various government policies encouraging homeownership, a record number of Americans have had the opportunity to purchase homes. A large number of these new homeowners have enjoyed one of the many benefits of homeownership -- using the equity in their homes for home improvements, family emergencies, debt consolidation, etc. Many of these consumers were able to purchase and use the equity in their homes because of the subprime lending market which provides millions of Americans with credit that they may not have otherwise been able to obtain.

Many borrowers are unable to qualify for the lowest mortgage rate available in the "prime" market — also known as the "conventional" or "conforming" market — because they have less than perfect credit or cannot meet some of the tougher underwriting requirements of the prime market. These borrowers, who generally are considered as posing higher risks, rely on the subprime market which offers more customized mortgage products to meet customers' varying credit needs and situations. Subprime borrowers pay higher rates and servicing costs to offset their greater risk.

Nationally, subprime mortgage originations have skyrocketed since the early 1990s. Finance companies, non-bank mortgage companies and to a lesser extent commercial banks have become active players in this area. In 1994, just $34 billion in subprime mortgages were originated, compared with over $213 billion in 2002. The proportion of subprime loans compared with all home loans also rose dramatically. In 1994, subprime mortgages represented 5 percent of overall mortgage originations in the U.S. By 2002, the share had risen to 8.6 percent.

Unfortunately, the increase in subprime lending has in some instances increased abusive lending practices that have been targeted at more vulnerable populations, i.e. minorities and the elderly. These abusive practices have become known as "predatory lending." Predatory loan features include excessively high interest rates and fees, balloon payments, high loan-to-value ratios, excessive prepayment penalties, loan flippings, loan steering, mandatory arbitration, and unnecessary credit life insurance. Predatory lending has destroyed the dream of homeownership for many families while leaving behind devastated communities. Hopefully today's hearing will help us to distinguish legitimate subprime lending, i.e. loans that compensate the lender for the enhanced risk posed by the borrower, from predatory lending.

In closing, I want to thank Chairman Ney and Congressman Ken Lucas for their tireless efforts on this issue over the past year. They, along with Congressman Kanjorksi, are passionate about coming up with solutions and deserve a great deal of credit for all of their work on H.R. 833, the Responsible Lending Act. I also want to commend Congressman David Scott for his work on H.R. 1865, the Prevention of Predatory Lending through Education Act, and Congressmen Mel Watt and Brad Miller, who recently introduced H.R. 3974, the Prohibit Predatory Lending Act of 2004. I look forward to working with Chairman Ney, Congressmen Lucas, Scott, Watt, Miller and my other colleagues as we continue to examine this complicated issue.

I yield back the balance of my time.