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Opening Statement

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Committee on Financial Services

Subcommittee on Financial Institutions and Consumer Credit
Subcommittee on Housing and Community Opportunity

"Subprime Lending: Defining the Market and Its Customers"
March 30, 2004

Let me begin by thanking Chairman Ney and Chairman Bachus for convening this joint hearing of their two subcommittees in the attempt to better understand the dynamics of the subprime market as well as the customers who use it.

As we heard time and again in the exhaustive set of hearings that Chairman Bachus chaired last year on reauthorizing the Fair Credit Reporting Act, in the last two decades we have witnessed a revolutionary "democratization" of our nation's credit markets. Consumers who once found themselves shut out of the financial mainstream now have access to a wide array of products that can help them achieve the American Dream for themselves and for their families.

Nowhere has the democratization in credit availability been more pronounced than in the mortgage finance area, where historically low interest rates have combined with other economic and demographic factors to produce record levels of homeownership, now approaching 70 percent.

Growth has been particularly explosive in the nonprime segment of the mortgage market, where home equity loan originations are estimated to have exceeded $300 billion in 2003, representing about 10 percent of all mortgage originations. This increase in lending to previously underserved Americans has been accompanied by concerns about the vulnerability of low- and moderate-income consumers to unscrupulous lenders seeking to saddle them with high-cost loans that the consumers may lack the ability to repay.

Reported instances of such "predatory lending" have prompted a number of States and localities to pass laws or ordinances designed to protect consumers from abusive practices. Predatory lending laws were introduced in 42 states during the calendar year 2003. The public policy merits of these State and local efforts have been the subject of intense debate. Some hailing them as strong pro-consumer initiatives, while others contend that the measures have had the unintended consequence of limiting credit availability to nonprime borrowers, by driving up lenders' costs to the point where it no longer makes economic sense for them to make the loans.

The goal of any solution to the predatory lending problem must be to target sharp practices while at the same time ensuring that low- and moderate-income consumers continue to enjoy the benefits of readily available mortgage credit. To combat predatory lending, we must demand that the banking regulators and, where appropriate, law enforcement authorities aggressively enforce consumer protection and fair lending statutes against those who would prey upon the unsophisticated borrower. We must also continue to emphasize the importance of achieving higher levels of financial literacy among all Americans, particularly those who present higher credit risks and who are therefore more likely to face higher credit costs. Consumers who have been armed with the basic tools to manage their finances wisely are far less likely to fall victim to damaging loan terms or other financial scams designed to strip them of home equity while generating huge fees for lenders or their agents.

Before action can be taken, however, it is imperative that we understand the subprime customers and the market in which they participate. It is my hope that the hearing today will help to further educate and enlighten us on this important issue.

Let me again thank Chairman Bachus and Chairman Ney for their work in putting together a balanced hearing on an issue that elicits strong passions on both sides. I look forward to the testimony of our distinguished witnesses, and I yield back the balance of my time.

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