

City of Philadelphia



Council of the City of Philadelphia
Office of the Chief Clerk
Room 402, City Hall
Philadelphia

(Resolution No. 070547)

RESOLUTION

Calling on the Board of Governors of the Federal Reserve System to use their authority under the Home Ownership and Equity Protection Act of 1994 (HOEPA) to further protect consumers from predatory lending, particularly regarding subprime mortgages.

WHEREAS, The Board of Governors of the Federal Reserve System are holding public hearings in Washington, DC on June 14, 2007; and

WHEREAS, This hearing will examine how the Board might use its rulemaking authority under HOEPA to address concerns about abusive lending practices in the mortgage market , particularly the subprime mortgage market; and

WHEREAS, One of the issues to be discussed during the hearings are prepayment penalties especially those that extend beyond the expiration of an introductory or teaser rate on an adjustable rate mortgage and deter consumers from refinancing when the rate resets;

WHEREAS, Another issue to be discussed during the hearing is the availability of an escrow for taxes and insurance on subprime loans as this aids the consumer in their awareness as well as budgeting for these expenses; and

WHEREAS, Another issue to be discussed during the hearing are the “stated income” or “low doc” loans when the consumer is given a subprime mortgage based on not verified income which causes the lenders to charge higher interest rates. Sometimes these type of loans are not disclosed to the consumer who may be eligible for a lower interest rate; and

WHEREAS, The Board will also discuss the issue of consumers being extended a loan which they can not afford. This occurs when lenders extend a loan without adequately considering the borrower’s ability to repay the loan; and

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WHEREAS, The subprime lending industry has grown rapidly in Philadelphia during the last few years; and

WHEREAS, Some of these lenders aggressively market high-cost home loans that borrowers are unable to repay and engage in other unfair credit practices that strip retirees and working families of the equity they have in their homes; and

WHEREAS, Some of these lenders target communities least able to afford these loans and have made loans to borrowers despite knowing that the family will not be able to afford the loans in the long term; and

WHEREAS, These practices are known as predatory lending have lead to an increase in the foreclosure rates which hurts Philadelphia families who are losing their homes as well as the Philadelphia neighborhoods where there are a concentration of foreclosed homes; and

WHEREAS, African Americans make up 40% of households in Philadelphia, but received 17% of all of the prime loans and 49% of all subprime loans; and

WHEREAS, Low to moderate income borrowers were almost twice as likely as middle to upper income borrowers to receive a subprime loan; and

WHEREAS, 30% of loans made to citizens of Philadelphia were subprime, more than double that of the suburbs; now therefore

RESOLVED, THAT THE COUNCIL OF THE CITY OF PHILADELPHIA, Calls upon the Board of Governors of the Federal Reserve System to use their rule making authority under the Home Ownership and Equity Protection Act of 1994 to regulate subprime lenders to, prior to making a mortgage loan to credibly assess the borrowers ability to repay, stop the misuse of stated and low documentation income loans, reduce or eliminate prepayment penalties on loans, designate that the failure to escrow taxes and insurance on subprime loans as an unfair and deceptive practice and hold lenders responsible for the actions of subprime brokers.

FURTHER RESOLVED, That a copy of this resolution be sent to the Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551 and 10 Independence Mall, Philadelphia, PA 19106.

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CERTIFICATION: This is a true and correct copy of the original Resolution, Adopted by the Council of the City of Philadelphia on the seventh of June, 2007.

Anna C. Verna
PRESIDENT OF THE COUNCIL

Patricia Rafferty
CHIEF CLERK OF THE COUNCIL

Introduced by: Councilmember Tasco

Sponsored by: Councilmembers Tasco, Greenlee, Goode, Reynolds Brown, Kelly, Kenney, DiCicco, Council President Verna, Councilmembers Clarke, Rizzo, Krajewski, Miller, Campbell, Savage, Blackwell, Ramos and O'Neill