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BEFORE THE
UNITED STATES SENATE
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

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Chairman Shelby, Ranking Member Sarbanes, Distinguished Members of the Committee:

Thank you for the opportunity to join you this morning to discuss the impact of a major initiative of the Bush Administration: our unprecedented effort to better protect consumers and increase homeownership by making the home financing process more transparent, simpler, and less costly.

The emphasis Americans place on homeownership sets us apart from many other nations of the world. In this country, homeownership provides financial security for families and stability for children. It creates community stakeholders who have a vested interest in what happens in their neighborhoods. It generates economic strength that fuels the entire nation.

The Bush Administration is committed to helping more families achieve the American Dream of homeownership.

To do this, we must eliminate the homeownership gap that exists between the minority and non-minority populations. Last year, the President set a goal of creating 5.5 million new minority homeowners by the end of this decade, and he challenged the real estate and mortgage finance industries to work with us to boost homeownership among minorities.

Our partners have responded enthusiastically, by making specific commitments that will move us toward the President's goal. The Administration is doing its part by proposing a number of new and expanded homeownership initiatives in HUD's Fiscal Year 2004 budget. Each will help us break through the barriers that prevent too many Americans from knowing the security that comes with owning their own home.

The mortgage finance process and the costs of closing remain major impediments to homeownership. Every day, Americans enter into mortgage loans – the largest financial obligation most families will undertake – without the clear and useful information they receive with most any other major purchase. This makes them vulnerable to predatory lending practices.

After agreeing to the price of a house, too many families sit down at the settlement table and discover unexpected fees that can add hundreds, if not thousands, of dollars to the cost of their loan. As a result, many homebuyers find the settlement process to be filled with mystery and frustration.

This Administration is committed to streamlining the mortgage finance process, so consumers can shop for mortgages and better understand what will happen at the closing table. For these reasons, HUD has proposed a major overhaul of the regulations governing the Real Estate Settlement Procedures Act (RESPA).

RESPA has been a priority of mine since I came to HUD. Shortly after taking office, I was faced with a major RESPA issue: the legality of yield spread premiums. Yield spread premiums are payments from lenders to mortgage brokers that are reflected in a higher interest rate. Since yield spread premium entails a higher interest rate, it can be unclear whether the higher rate results in the borrower being given a higher cost loan or whether it is being used to offset origination costs. In response, we issued a policy statement repeating our view that as long as the broker's compensation is for goods, facilities, or services, and the total compensation is reasonable, yield spread premiums to the mortgage broker are legal under RESPA.

At the same time, we recognized that there were serious disclosure problems involving yield spread premiums. We noted that less-scrupulous brokers often used yield spread premiums to generate additional profits, placing unsuspecting borrowers in higher-rate loans without their knowledge. And so in the process of issuing the policy statement, I committed HUD to establishing clearer disclosure rules for mortgage broker fees, and to simplifying and improving the mortgage origination process for everyone involved. There was general – virtually unanimous - agreement among all the industry groups, as well as consumer advocates, about the need for better disclosure: simpler, clearer, and on a timely basis so consumers could shop for the best loan.

Beginning last year, we undertook a major reform of RESPA's regulatory requirements. From day number one, we reached out to the affected industry groups to ensure their involvement.

As you know, the real estate settlement services industry is not a single industry but several that provide settlement services needed to help originate and close mortgage loans. Settlement service providers include mortgage lenders, mortgage brokers, real estate professionals, title insurers, title and settlement agents, pest inspectors, appraisers, credit bureaus, and others. These businesses range from the very large to the very small, and include many sole proprietors. The combined efforts of settlement service businesses, large and small, have helped to make the mortgage finance system in this country the envy of the world.

At the start of our reform process, we met with industry groups, consumer advocates, and other interested parties to solicit their concerns about the RESPA regulations and their suggestions for reform. Many of their recommendations helped shape the direction of our proposal.

As we were drafting our reform proposal, we continued to meet with industry groups, consumer advocates, and other interested parties to ensure that, to the best of our ability, their concerns were addressed in our draft proposal. We were methodical and deliberative in our planning, and we took the time to get it right.

Nine months after first publicly announcing our intention to reform RESPA's regulatory requirements – and well over a year after our internal work had begun – HUD published its reform proposal for public comment. Within the rule itself, we solicited additional input from the industry groups, consumer advocates, and other interested parties we had been communicating with throughout this process. The rule asked 30 specific questions to help us gauge the impact of our proposal on these various stakeholders. We felt it was critical to know whether the approaches we have proposed are the right ones – and if not, what alternatives may work better.

HUD received nearly 43,000 public comments in response, although many of them were form letters. The 18 weeks since the comment period closed on October 28th, 2002, have been spent carefully studying the written comments. Many have come from mortgage brokers and title agents. Also, there were many detailed letters from trade associations for these industries. As you can imagine, reviewing and cataloguing the comments has been a lengthy process due to the sheer volume we received.

These comments, along with the meetings we have continued to hold since October with industry groups, consumer advocates, and other interested parties have been helpful in assisting the Department as we examine the impacts of the proposal on small businesses, and consider how best to minimize such impacts. All the while, we are keeping in mind that the goal of RESPA is to ensure that settlement costs for consumers are reduced.

Since the proposed rule was published last summer, alternatives have been brought to our attention. Our thinking is evolving on how portions of the proposal can be revised for the final rule, to ensure that all businesses, large and small, can take advantage of the opportunities presented by the rule.

We remain committed to addressing the concerns raised by small businesses, and we are continuing to work with the Small Business Administration's Office of Advocacy as we develop the final rule. I want to assure the Committee that our final rule, and the economic analysis to be issued with it, will address the concerns raised by the affected small businesses. The Department is committed to issuing a final rule fully mindful of impacts on small businesses.

Because they ensure greater transparency, our proposed reforms will make it more difficult for unscrupulous lenders to abuse borrowers. But let me be clear that RESPA reform alone will not end predatory lending. Efforts HUD has undertaken in the past two years to target abusive lending practices include at least 15 new rules focused on, among other priorities, weeding out unscrupulous appraisers, ending the practice of quick re-sales or "flipping," and helping us to identify problem loans and lenders early on. We intend to do even more to address predatory lending while preserving a source of credit for those with less-than-perfect credit histories.

HUD is committed to creating a homebuying and mortgage finance process grounded in transparency and simplicity. By reforming the rules governing the purchase and financing of a home, we will create new opportunities for first-time homebuyers, keep the American dream of homeownership alive for more families, and inspire greater public confidence in the mortgage lending industry.

I would again like to thank the Committee for the opportunity to meet with you today. I welcome your continued counsel as we work together on behalf of the American people.