

STATEMENT OF THE HONORABLE WM. LACY CLAY

Before

The Subcommittee on Housing and Community Opportunity and
the Subcommittee on Financial Institutions and Consumer Credit
“Legislative Solutions to Abusive Mortgage Lending Practices”

May 24, 2005

Thank you for yielding, Mr. Chairman.

In recent years lenders have used various techniques to provide credit to a large segment of the American population that may have otherwise been shut out of formal credit markets – those with limited or impaired credit histories and especially those in underserved low-income and minority communities. Unfortunately, too many families have been misled and forced into foreclosure, leaving their dreams of being homeowners unrealized. Their stories have been relived by thousands of American homeowners as predatory lenders ensnare them with contracts that are designed to collect huge sums in fees or that will use up all of the equity that one has accumulated. This is an economically devastating experience for many in the 1st Congressional District of Missouri.

I have been working with an effort to set national standards for sub-prime mortgage lending for the past two years. Lenders have

long argued for national lending rules because they find it hard to comply with often conflicting state and local statutes and many have pulled out of markets that have enacted laws they consider unworkable. I support this concept; however, the states' right to be involved in the enforcement of predatory laws must be preserved. We agree that the extension of credit is national, however, real estate lending is local.

My focus has been to find a way to preserve the subprime market while eradicating predatory lending by exacting severe penalties on those guilty of predatory lending. The penalties must be swift, severe, enforced fairly, regardless of the size of the offending institution. The subprime market is vital to the minority community. We must protect the good players and weed out the bad ones.

This is not an effort that Members of Congress and advocacy groups have undertaken alone. The mortgage industry has been instrumental in promoting a cleanup of bad mortgage practices and corrupt businesses. The industry wants to preserve its customer base and the resulting business. Their interest is in avoiding foreclosures also. We all know that we must have both legislation and programs of financial literacy to attack this beast.

We have a grave problem that must be addressed. We cannot sit idly by and do nothing. We cannot argue over political positions and come to no agreement or compromise legislation. We must get something done. This is the beginning of a process of negotiations not the presentation of a finished product. Let us keep that in mind and get about the business of getting relief to all of these victims of predatory lending.