Murphy Successful in Moving Mortgage Kickback Prohibition Bill

Today, Congressman Chris Murphy (CT-5) announced that his legislation to end kickback payments to mortgage originators who steer consumers into higher cost mortgages was included in the recently introduced Miller-Watt-Frank bill, H.R. 3915, which is broad legislation to deal with the subprime mortgage crisis.

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WASHINGTON, D.C. – Today, Congressman Chris Murphy (CT-5) announced that his legislation to end kickback payments to mortgage originators who steer consumers into higher cost mortgages was included in the recently introduced Miller-Watt-Frank bill, H.R. 3915, which is broad legislation to deal with the subprime mortgage crisis. According to the Center for Responsible Lending, these kickbacks, known as yield spread premiums, or YSPs, are included in 85 to 90 percent of all subprime mortgages, and consumers are unknowingly paying for these unnecessary fees.

"One of the reasons for this influx of foreclosures and uncertainty in the housing market is that consumers are having to pay for mortgages they can't afford, and shouldn't have been sold in the first place. And adding insult is the fact that people who sold these burdensome loans to consumers were receiving a back door payment. This practice has to stop, and I am pleased that Chairman Frank has included my provision to end this practice in his bill," said Murphy.

Loans that include these kickbacks cost borrowers an additional $800 to $3,000 over the life of their mortgage. Yet, today, despite the costly and unfair burden YSPs represent, mortgage originators are not legally required to inform borrowers about the connection between these kickbacks and the higher interest rate borrowers pay because of them.

In Connecticut, 63,000 homeowners currently hold subprime loans. More than half of the home loans in Connecticut that are 90 days or more delinquent and in foreclosure are subprime loans. The percentage of subprime loan holders in foreclosure in Connecticut has doubled from the first quarter of 2006 to the first quarter of 2007.

The Miller-Watt-Frank bill, H.R. 3915, the "The Mortgage Reform and Anti-Predatory Lending Act of 2007", will reform mortgage practices in the following ways:

• Establishes a federal duty of care, prohibits steering, and calls for licensing and registration of mortgage originators, including brokers and bank loan officers.

• Sets a minimum standard for all mortgages which states that borrowers must have a reasonable ability to repay.

• Attaches limited liability to secondary market securitizers who package and sell interest in home mortgage loans outside of these standards. However, individual investors in these securities would not be liable.

• Expands and enhances consumer protections for "high-cost loans" under the Home Ownership and Equity Protection Act and includes important protections for renters of foreclosed homes.

"Congressman Murphy got it right. Kickbacks and other forms of incentive compensation should not be allowed for steering people from appropriate loans. I thank Chris Murphy for bringing this to our attention, and I am happy to include his legislation in the comprehensive bill," said Chairman Frank.

Note: details of the legislation are available at financialservices.house.gov.
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