

No More Mortgage Meltdowns Consumers Union's Mortgage Reform Platform

Reducing foreclosures today

Foreclosures hurt the families who lose their homes, neighbors who live nearby, and all homeowners by driving down housing values. Consumers Union seeks:

- An effective, wide-scale loan modification program which is mandatory for all lenders. Lenders must make loan modifications affordable for borrowers for the long term.
- Permanent statutory authority for loan servicers to modify terms and loan balances.
- Power for bankruptcy judges to reduce the amount owed on a home mortgage loan to the current value of the house.
- Congress should impose a six month moratorium on foreclosures until effective, wide-scale loan modification programs are in effect.

Preventing another foreclosure crisis

We need strong new laws to make all loans fair. This should include these requirements for every home mortgage:

- Every lender should be required to decide if the borrower will be able to repay the loan (underwriting) and all related housing costs at the highest interest rate to which the loan can rise.
- Lenders should be required to verify all income on the loan application. This will end the incentive for brokers to overstate the borrower's income.
- Lenders must end complex pricing structures that obscure the true cost of the loan.
- Lenders and brokers should be required to offer only those types of loans that are suitable to the borrower.
- Impose a fiduciary obligation on brokers and lenders to serve in the best interest of the borrower.

- Payments to brokers to place consumers in higher cost loans should be illegal.
- Eliminate negative amortization abuses. This is a loan feature in which the monthly payment doesn't cover all of the interest costs, so that the amount owed on the loan increases while payments are being made.
- Require translation of loan documents into the language in which the loan was negotiated.
- Investors should be held accountable through assignee liability for the abusive features of loans they purchase.
- Require that everyone who gets a fee for making or arranging a loan is responsible later if something goes wrong with that loan.

Extra protections for higher-priced loans, as defined by the Federal Reserve Board guidelines, should be adopted and implemented. These protections should:

- Require mandatory pre-loan counseling (offered by a non-profit HUD approved counseling agency, unaffiliated with the lender or broker).
- Ban all prepayment penalties in higher-priced loans which trap borrowers into expensive and bad loans.
- Prohibit balloon payment provisions in higher-priced loans.

Restoration of state powers is necessary to protect all consumers from financial abuses.