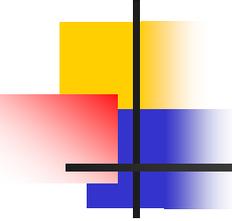


The Minnesota Model to Rein in Predatory Lending

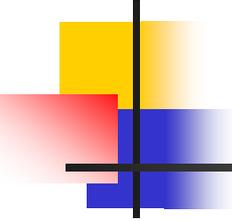


Senator Linda Higgins
Minneapolis



Why?

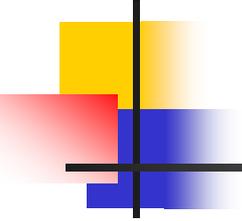
- A stunning 11,207 foreclosures statewide in 2006.
- Greater Minnesota foreclosures were up from 2,707 in 2005 to 4,168 in 2006.
- Minneapolis had 1610 foreclosures in 2006, twice the foreclosures from 2005. Half were concentrated in two zip codes.



An epidemic in Minnesota

“The foreclosure crisis extends to every corner of the state and hurts both families and neighboring property owners.”

Warren Hanson, president of Greater Minnesota Housing Fund



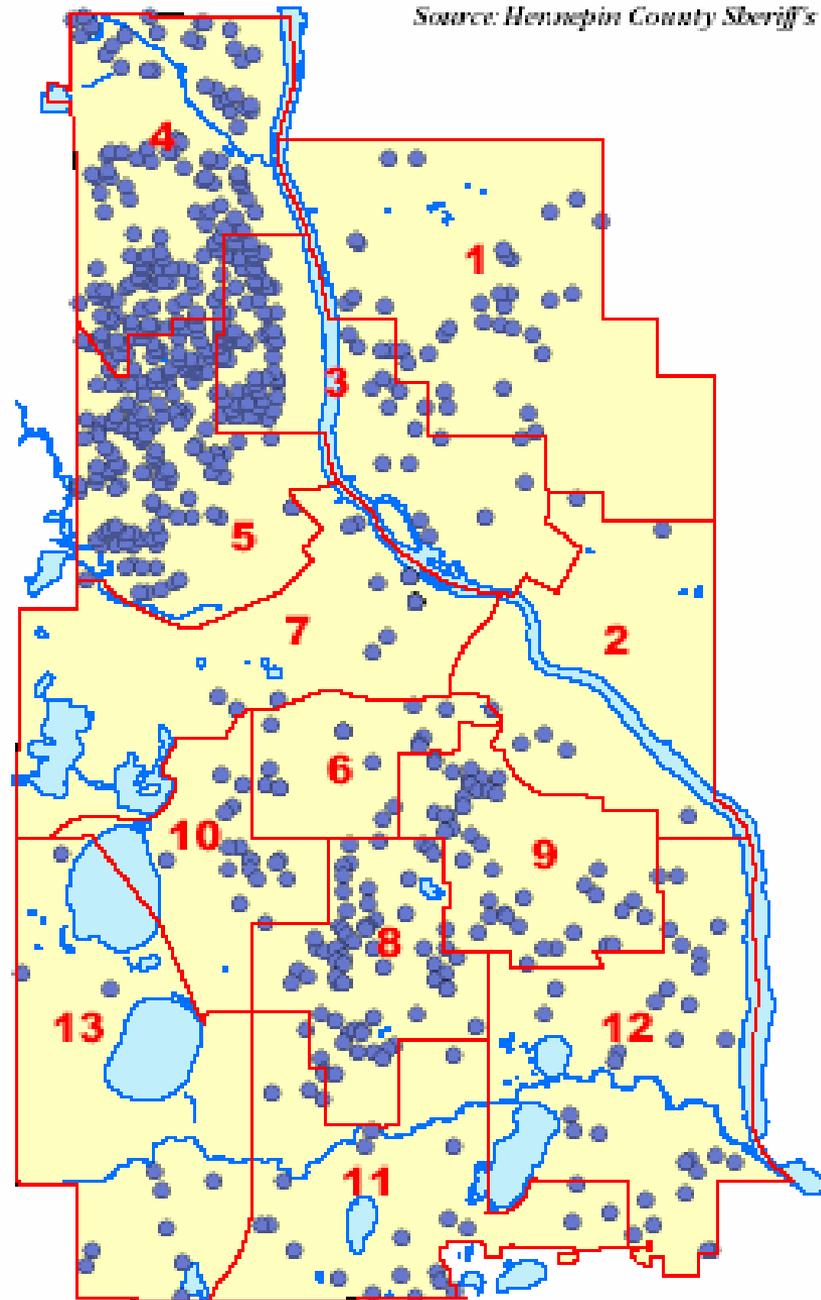
It's a mortgage mess!

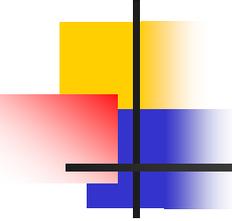
“Not all subprime loans are predatory, but nearly all predatory loans are subprime.”

University of Minnesota housing-studies professor Jeff Crump

Mpls.

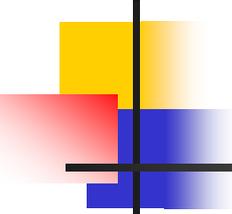
643 housing units
went to public
auction in
Minneapolis in
only the second
quarter of 2007





Ability to Repay the Loan

- Lenders and brokers must verify a borrower's ability to repay the loan.
- Lenders may use criteria other than borrower's income to justify making the loan but must document alternative criteria through reliable methods.
- For ARMs, lender must verify that borrower can qualify for “fully indexed rate,” not just teaser rate.



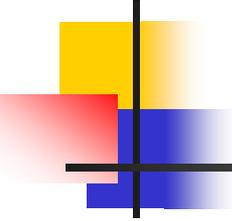
Brokers Must Act in Client's Best Interest

- Brokers now have a legal duty to act in the best interest of the borrower.
- Brokers cannot accept compensation that is undisclosed to the borrower.
- Payments from lender to broker must be included in calculation of lender fees.
- Lender fees are capped at 5% of loan amount. Side payments from lender to broker (“yield spread premiums”) count toward 5%.

Negative Amortization Loans Prohibited

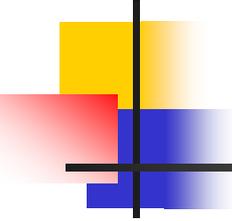
Lenders can no longer make loans that are structured so monthly payments don't cover all the interest that is accruing on the loan.





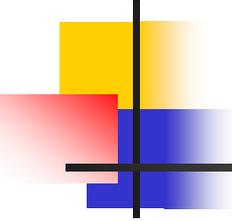
Other Prohibitions

- “Churning” – refinancing that doesn’t benefit the borrower.
- Prepayment penalties for subprime loans
- Refinancing “special mortgages” without loan counseling
- Partial payment quotes (without taxes and insurance) without telling borrower – must be able to compare accurately



Victims Now Have Adequate Remedy

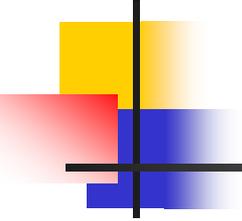
- Borrowers who are harmed by violations of the standards set forth for brokers, lenders, and appraisers now have a right to sue for damages, costs, and attorney fees.
- Does not apply to loans originated by a state or federally chartered bank, savings bank, or credit union.



Criminalizes The Most Egregious Conduct

A new crime – mortgage fraud

Anyone who falsifies information on a mortgage application, or anyone who facilitates the use of such information in connection with getting a mortgage with the knowledge that the information is false, can be prosecuted for the crime of mortgage fraud.

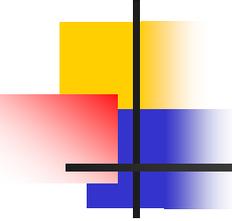


Some Lenders Exempt

Some provisions (verify ability to repay, churning, neg-am, disclosing P&I) do not apply to a state or federally chartered bank, savings bank, or credit union, or to a loan originated or purchased by a state agency or tribal or local unit of government.



FEB



Senator Linda Higgins

District 58 — North and Downtown Minneapolis — includes 55411 and 55412, which have had half the foreclosures in the city in 2005, 2006 and 2007.

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