

OPERATION THRESHOLD

Serving Black Hawk, Buchanan and Grundy Counties

June 7, 2002

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Regulation Comments
Chief Counsel's Office
Office of Thrift Supervision
1700 G. Street NW
Washington, DC 20552

Attention: Docket No. 2002-17

To Whom It May Concern:

As a member of the National Community Reinvestment Coalition, Operation Threshold strongly supports the proposed changes to the Office of Thrift Supervision's (OTS) regulations implementing the Alternative Mortgage Transaction Parity Act (AMTPA). Operation Threshold has been involved in combating predatory lending for several years, through home buyer education classes and one-on-one homeownership counseling. Most recently, we have embarked on a yearlong campaign to educate the community regarding predatory lending. Prepayment penalties trap borrowers in abusive loans. The current AMTPA regulations have facilitated the proliferation of prepayment penalties and late fees in predatory loans.

In 1996, the OTS allowed institutions to preempt state limits regarding prepayment penalties and late fees on alternative mortgages. This single change in the OTS regulations contributed significantly to the dramatic increase in predatory lending of the last few years. Non-depository institutions and mortgage companies that were state-chartered applied prepayment penalties at such a high rate that the great majority of subprime borrowers (about 80 percent) now have prepayment penalties on their loans according to Standard and Poor's. This huge difference in the application of prepayment penalties suggests that prepayment penalties trap subprime borrowers into abusive loans, and that subprime borrowers do not freely accept prepayment penalties as a means of lowering their interest rates.

According to a study by Rural Housing Institute, a non-profit housing provider in Iowa, a disproportionate number of middle-to upper-income African-American households in Waterloo are targets of subprime lending practices. We recognize that subprime lending has its place in the community; however, abusive loan practices do not.

The OTS correctly notes in its proposal that prepayment penalties and late fees are not integral elements of alternative mortgages. Since all states but one now allow ARMs, AMTPA is no longer needed. Instead, predatory lenders are using AMTPA and the existing OTS regulations to evade state law on alternative mortgages and prey upon unsuspecting and vulnerable borrowers. Operation Threshold cannot emphasize enough how urgent it is to remove AMTPA's preemption of state limits regarding prepayment penalties and late fees on alternative mortgages.

Operation Threshold believes that limiting prepayment penalties across the board would have achieved a greater degree of uniformity in the regulatory framework for different institutions. If the OTS does not adopt a more prescriptive approach, Operation Threshold strongly urges the OTS to stick with its proposal and to resist industry calls to waken its proposed regulatory changes.

We applaud the OTS for proposing this change to their AMTPA regulations and ask the OTS to implement this change as quickly as possible after the close of the public comment period.

Sincerely,



Barbara A. Grant
Executive Director