



Legal Aid Bureau, Inc.

Baltimore City Office
Statewide Advocacy Support
Unit
Foreclosure Legal Assistance
Project

Charles H. Dorsey, Jr. Building
500 E. Lexington Street
Baltimore, Maryland 21202
(410) 951-7777
(410) 951-7818 FAX

Kathleen S. Skullney
Project Attorney

Warren S. Oliveri, Jr., President
Wilhelm H. Joseph, Jr., Executive Director
C. Shawn Boehringer, Chief Counsel
Gustava E. Taler, Deputy Director for Operations
Cheryl Hystad, Director of Advocacy

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Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

Re: Truth in Lending – Proposed Rule: Regulation Z Part 226; Docket No. R-1367

Dear Members of the Federal Reserve Board:

The Legal Aid Bureau, Inc. offers the following comments on the proposed changes to the regulations under the Truth in Lending Act. As the oldest and the largest provider of legal services for low-income Marylanders, we provide legal assistance to thousands of low-income individuals, families and community-based organizations across the state each year. We focus on the most pressing and essential needs of our clients and the most isolated and vulnerable members of our population. Thus, our legal representation includes obtaining needed healthcare and disability benefits, preventing foreclosures, recovering unpaid wages, restoring utilities, preventing wage garnishments, preventing unlawful evictions and improving substandard and dangerous housing conditions.

As you may know, Maryland has been hit particularly hard by the foreclosure crisis, now ranking in the top ten states in the rate of foreclosure. The 4th Quarter Report of foreclosure activity compiled by the Maryland Department of Housing and Community Development is expected to show that 1 in every 150 Maryland homes is in default or active foreclosure. Home equity lines of credit (HELOCs) are a significant factor in Maryland's crisis, having been abused in home purchase transactions as well as

in a range of abusive refinance products. The worst Maryland data are concentrated in minority and rural communities which, we believe, reflect the worst abuses in the mortgage industry.

Proposed Changes in Rules and Timing for Open-End Credit are Deeply Flawed. Unlike the changes proposed by the Board for closed-end credit disclosures, the changes for open-end credit are deeply flawed. If adopted, this proposal will do a great deal of harm. It will not only enable HELOC lending to become much more abusive, but also will undermine the Board's innovative proposals for closed-end credit -- because the abuses will simply migrate to the less regulated open-end credit market. The Board's HELOC proposal requires major revision.

The Board's proposal would allow creditors to make HELOC loans with *no advance disclosures*. Allowing open end home-secured credit to be made with such minimal disclosure requirements will push the predatory activity into that form of lending -- which we in Maryland have seen is just as dangerous for consumers and the economy as predatory closed-end credit has been.

Additionally, we strongly oppose the Board's proposal for a weak, "nothing-in" APR for open-end credit. Here the Board proposes to put *no up front fees or charges in the APR*. This directly opposes the approach of the "all-in" finance charge in the closed end proposals, and creates a major gap in meaningful regulation between closed and open end home secured credit. Such a void will make it impossible for consumers to compare the products.

Changes for Open-End Credit is Based on Wrong Assumptions. The Board bases its flawed approach for HELOC changes on the mistaken idea that HELOC borrowers seek out HELOCs. Borrowers in the subprime market are most often provided HELOCs as part of 80-20 financing deals. The lender finances 80% of the obligation with a closed-end mortgage, and the remaining 20% with a HELOC. This may be a home purchase or a refinance, but the bottom line is that the borrower is highly leveraged, with no equity cushion. The borrower rarely understands the terms of the deal before closing, or even that there are two loans, and is never made aware that one of the loans is a HELOC. *The HELOC is a line of credit in name only, as nearly the entire amount available is drawn down at closing.* The Board has completely failed to deal with this subprime HELOC market—the market where abuses are most likely to occur.

Additionally, the Board treats HELOCs as an alternate form of a credit card, not an alternate form of a mortgage. Again, this view ignores the subprime market, where HELOCs are primarily sold as part of a mortgage transaction. They are sold along with closed-end mortgages in 80-20 transactions. By allowing HELOC lenders to state an APR that does not include fees, the Board is blessing a disclosure regime that will make HELOC APRs appear lower than the APRs for comparable closed-end mortgages, giving consumers the *false impression that the HELOC rate is lower.*

The Board's proposal is a recipe for abuse. Brokers will be able to steer borrowers into HELOCs and provide the terms of the HELOC only at closing. HELOCs that are used to purchase a home will not be rescindable, so home purchasers who sign a fully-drawn HELOC at closing will have no ability to get out of it. Brokers will be able to mislead borrowers by selling HELOCs as cheaper than closed-end loans by showing borrowers the HELOC APR, which will look lower only because the two APRs are defined differently. Lenders could even offer a consumer a plain-vanilla fixed-rate closed end loan to purchase a home, and then switch the borrower to a subprime HELOC at closing. Bad lending will migrate to HELOCs, undermining the true reforms that the Board has proposed for closed-end lending.

Based on this blindness toward the part of the market where the greatest abuses occur, the Board has decided to *dispense with all early disclosures about HELOCs*. Instead, the Board is giving its blessing to the practice of giving the borrower the first and only disclosures about the terms of the HELOC *at closing*.

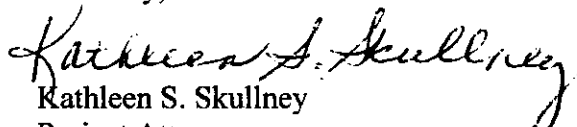
The Board's Mandate to Protect Consumers from Unfair Mortgage Practices Includes Home Secured Open-end credit. It is more than disappointing that in the midst of the current disaster in the mortgage market, even with the obvious problems caused by essentially unsecured second mortgages, that the Board does not appear to recognize the dangers of home secured open-end credit. This is simply unacceptable under the Board's clear mandate to protect consumers.

The Board's proposal on open-end credit reduces rather than increases protections for consumers from open-end credit lines. Instead, the Board should be mandating disclosures equivalent to closed-end credit, and substantive protections such as requiring creditors to evaluate the borrower's ability to pay all home secured credit.

There are many other issues which merit comment; for those, we refer the Board to the comprehensive comments provided by the National Consumer Law Center.

Thank you.

Sincerely,


Kathleen S. Skullney
Project Attorney