

The Honorable Ted Lieu  
State Capitol  
Sacramento, CA 95814

**Re: AB 260 (Lieu)—Support**

Dear Assemblymember Lieu,

I am writing on behalf of CALPIRG in support of AB 260. This bill addresses many of the factors that led to the current housing market collapse. It will impose stricter guidelines on the multiple parties involved in issuing home loans to ensure that a similar situation does not occur. AB 260 will ban certain practices that encourage lenders to act contrary to their client's best interest. It will also require that borrowers prove, and lenders verify, that the loan being issued can be repaid.

The mortgage lending industry has made the American dream of owning a home possible for millions of people, and at the same time created a multibillion dollar economy. Unfortunately, the drive to increase the profitability of home loans has driven a wedge between the interests of those issuing the loans and those receiving the loans—giving rise to unsustainable lending practices.

There are a specific set of practices that led to current crisis. Incentives to brokers from lenders to “steer” borrowers into a more expensive loan than they qualify for resulted in a large number of the subprime loans that exist. In addition, the practice of placing a penalty for early payment on subprime loans traps borrowers in a catch 22 because they can't afford to make the monthly payments on a loan, and also can't afford to pay the penalties. Another troubling practice is loans being issued without verifying that the stated income of the borrower is accurate. This leads to people getting into loans they simply cannot afford.

The combination of these practices created the climate that we are in now, and AB 1830 is a big step towards ensuring that this never happens again. This bill will require that lenders act in the financial best interest of the borrower, the borrower show proof of their income in order to get a loan, and that practices like pre-payment penalties on subprime loans be better regulated. Taking these steps will help to repair confidence in the lending industry, and prevent the next mortgage meltdown.

Sincerely,

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