



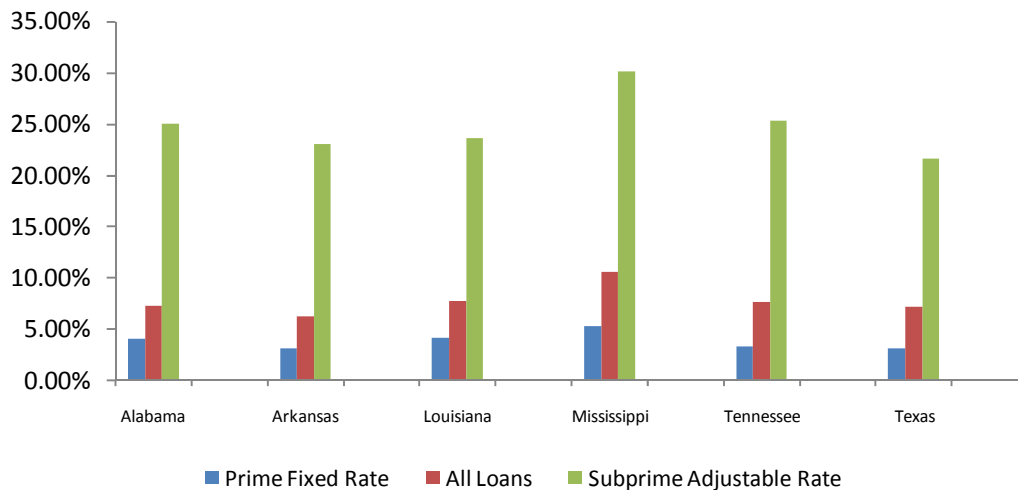
Predatory Mortgage Lending: Protecting Mississippi Families

Predatory lending can trap borrowers in a cycle of high interest payments, abusive fees, unreasonable terms and penalties that often lead to foreclosure. Lawmakers across the nation will reevaluate mortgage laws in the midst of a subprime lending crisis that is causing a record number of foreclosures throughout the country, and Mississippi legislators must enact laws that will continue to grant families access to homeownership while ensuring that those families will be able to maintain the homes they purchase.

Impact of Predatory Lending in Mississippi

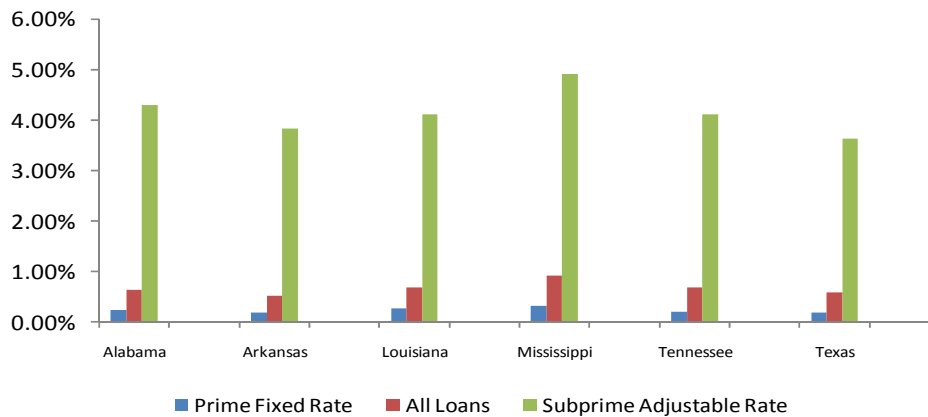
- Mississippi has the highest rate of subprime home lending in the country.
- Mississippi has the highest overall delinquency rate across all loan types (10.6%)
- Mississippi has the eighth highest rate of foreclosures started in the country (0.92%)

Table 1
Mississippi Leads other Regional States in Mortgage Delinquencies



Source: 2007 Third Quarter HMDA data. Percent of Loans with Installments Past Due

Table2
Mississippi Leads other Regional States in Rate of Home Foreclosures



Source: 2007 Third Quarter HMDA data. Percentage of Homes in Foreclosure Started in the Third Quarter of 2007.

Key Terms

Predatory Lending can be defined as a set of loan terms and practices that falls between appropriate risk-based pricing by subprime lenders and blatant fraud.

Prime Loans are loans with the best interest rate and the lowest fees available from lenders. These are generally available only to borrowers with high credit scores, sufficient incomes, and relatively low loan to value and debt-to income ratios.

Subprime Lending can be defined as lending to borrowers with elevated credit risks. Those risks may be elevated due to weak credit history or low payment capacity. Subprime loans often carry high interest rates, points, and fees, and are therefore often referred to as high cost loans.

Recommendations for Mississippi

- **Prohibit Prepayment Penalties on High Cost Loans.** Prepayment penalties are imposed on borrowers who repay all or the majority of a loan before the time period set in the contract. Prepayment penalties can trap a borrower in subprime loans by prohibiting them from refinancing for a lower interest rate.
- **Prohibit Balloon Payments on High Cost Loans.** Balloon payments are large, lump-sum payments scheduled at the end of considerably smaller, periodic payments.
- **Prohibit Negative Amortization.** Negative Amortization creates a payment schedule where the principle increases over time. Borrowers pay a monthly payment less than the interest and principle payment, and the differential between what they actually owe and what they are paying is added onto the outstanding loan balance each month.
- **Mandatory Counseling for First-Time, Subprime Borrowers.** This would ensure that all first-time homebuyers receiving subprime loans are informed of the terms and fees associated with their loan prior to closing.