Press Releases

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MADIGAN URGES FEDERAL RESERVE TO PROHIBIT MORTGAGE LENDING INCENTIVE COMPENSATION

Chicago—Attorney General Lisa Madigan today urged the Federal Reserve to eliminate financial incentives for loan officers and mortgage brokers to place borrowers in more expensive, higher-risk loans.

"Eliminating these incentives for brokers would help to end the deceptive practices used to entrap unsuspecting borrowers in loans they couldn't afford," Madigan said. "I strongly support the Federal Reserve's suggested changes because they would afford consumers significantly stronger protection against the very actions that contributed to the collapse of the housing market."

Madigan was joined in her comments to the Federal Reserve regarding proposed changes to rules implementing the federal Truth in Lending Act by the attorneys general from Arizona, Connecticut, Iowa, Maryland, Massachusetts, Minnesota, Missouri, New Hampshire, North Carolina, Ohio, Rhode Island, Tennessee, Vermont and West Virginia.

According to current federal law, lenders can receive bonus compensation based on the type of loan they issue, so loan officers who place borrowers in higher-risk loans such as adjustable-rate mortgages are eligible for incentive pay. Lenders also receive extra compensation if they put borrowers into loans at higher rates than what the borrowers were qualified for. Madigan noted that this compensation structure encourages loan officers to put consumers in loans they simply cannot afford.

Madigan and the other attorneys general urged the Federal Reserve to eliminate the incentives allowance and instead implement policies that encourage compensation according to loans' long-term performance.

"Much of the current foreclosure crisis can be traced to the point where these toxic loans were originated," Madigan said. "Instead of considering the long-term impact of issuing a loan a consumer couldn't afford, lenders typically opted to immediately sell off loans to institutional investors without consequence after borrowers went into default. Putting an emphasis on the overall performance of a loan would require lenders to care about more than just obtaining the consumer's signature on the bottom line."

-30-

Return to December 2009 Press Releases

TOP

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