



# The Senate of the State of Texas

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**The Honorable Greg Abbott**  
 Texas Attorney General  
 209 West 14th St.  
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**Senator Eliot Shapleigh**  
 District 29

April 24, 2008

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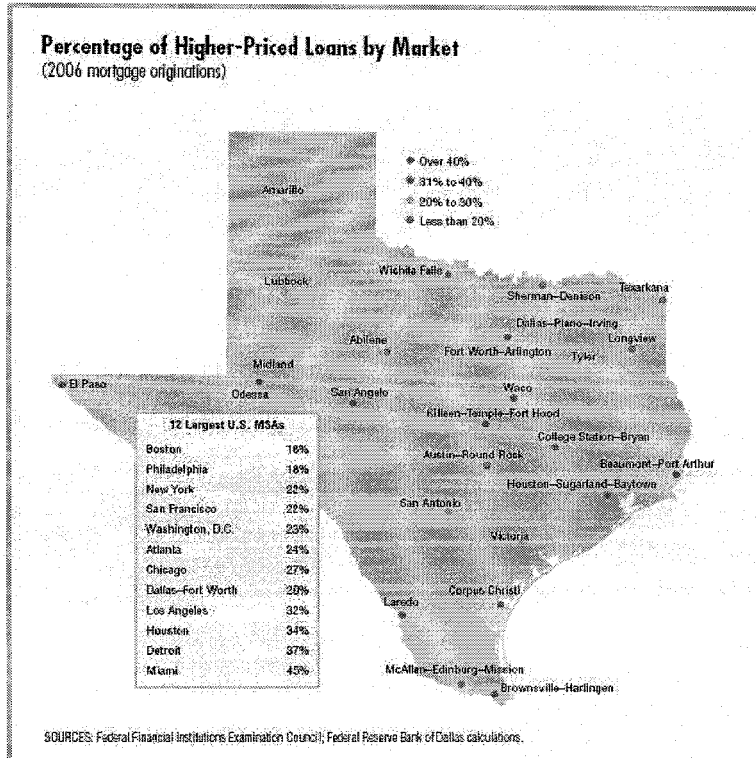
e-mail: [eliot.shapleigh@senate.state.tx.us](mailto:eliot.shapleigh@senate.state.tx.us)

RE: Subprime mortgage crisis

VIA: Interagency mail, E-mail

Dear Attorney General Abbott:

As you know, the percentage of subprime mortgage loans issued in Texas has been above average compared to other states. In Texas' Metropolitan Statistical Areas (MSAs), 30 percent of loans originated in 2006 were considered higher-priced—at least 3 percentage points above prevailing mortgage rates.<sup>1</sup> As the following chart illustrates, this figure exceeded the percentages in most of the nation's largest metro areas:



Higher-priced loans were heavily used in several of the state's MSAs, particularly along the Texas-Mexico border. In the McAllen-Edinburg-Mission MSA, over 40 percent of the mortgage volume between 2004 and 2006 involved high rate loans. The same holds true for the Laredo and Brownsville-Harlingen MSAs.

I would like to hear about your efforts to prevent Texans from becoming harmed by deceptive practices by companies such as those recently prosecuted in California for preying on struggling homeowners. So far, six mortgage firms have been shut down by California Attorney General Jerry Brown for engaging in predatory lending practices, including language manipulation, hidden fees, and psychological intimidation.

This crackdown in California represents the latest in a string of law enforcement actions against predatory lenders who have contributed to and are now exacerbating and exploiting the subprime mortgage crisis. In 2006, subprime lender Ameriquest Mortgage Co. agreed to pay \$325 million in a multi-state settlement over claims of deceptive lending practices. Last month, Residential Funding Co. LLC, Household Finance Corp. and Wachovia Equity Servicing, LLC were ordered to pay \$99 million for charging illegal fees for second mortgages.

Ohio Attorney General, Marc Dann, has also taken active steps to prevent Ohio residents from facing foreclosure<sup>ii</sup>. He established an initiative that recruited 1,300 lawyers from state agencies and the private sector to represent struggling homeowners during mediation and possibly litigation with lenders. This was an important first step in addressing the subprime mortgage crisis because many homeowners, especially those facing financial difficulties and potential foreclosure do not have lawyers.

It is estimated that up to 25 percent of mortgages in foreclosure involved outright fraud. The evidence is clear that wholesalers and mortgage brokers targeted vulnerable populations for these types of loans including the working- and middle-class, and unsophisticated consumers. Attorney General Dann insists that these predatory practices were intentional actions on the part of lenders.

The lawyers and borrowers will work together to investigate possible defenses to the actual foreclosure including possible fraud or un-sustainability of the initial mortgage. Attorney General Dann is confident that in many cases the borrowers will have legal defenses for avoiding foreclosure due to complex mortgages that include adjustable rates and no-document loans.

I am interested in knowing what subprime mortgage investigations you have launched in Texas. Please provide me with a report on any investigations completed or underway by your office. I would also like any information on initiatives taken to address the direct needs of families facing a housing crisis due to predatory, subprime mortgages.

I look forward to your written response, and ask that you include the reasons for your decision to act or not act. After we have received documents from your office responsive to our request, we will schedule a meeting to see what consumers in Texas might expect regarding basic protections against high-priced home loans. As you know, we have met on this issue several times and I have been disappointed by Texas' efforts to assist homeowners under fire.

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By working together, we can do more to protect Texas families.

Very truly yours,

A handwritten signature in black ink that reads "Eliot Shapleigh". The signature is written in a cursive, slightly slanted style.

Eliot Shapleigh

ES/ch

cc: Mr. David Mattax

SG/AttorneyGeneral/Abbot/AbbotGmortgageinvestigations2.doc

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<sup>i</sup> Fiona Sigalla, "Texas Finds Cover from U.S. Economic Storm," *Federal Reserve Bank of Dallas*, Southwest Economy, January, February, 2008. P. 6

<sup>ii</sup> Mullins, Luke. "How Ohio is Tackling the Foreclosure Crisis." *U.S. News* 21 Apr. 2008.  
<<http://www.usnews.com/articles/business/real-estate/2008/04/21/how-ohio-is-tackling-the-foreclosure-crisis.html>>.