



The Senate of the State of Texas

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Senator Eliot Shapleigh
District 29

MAIN DISTRICT OFFICE:
800 Wyoming Ave., Suite A
El Paso, Texas 79902
915/544-1990
Fax: 915/544-1998

April 22, 2008

EASTSIDE DISTRICT OFFICE:
1801 N. Zaragosa, Suite C
El Paso, Texas 79936
915/857-4800
Fax: 915/857-4854

The Honorable Greg Abbott
Texas Attorney General
209 West 14th St.
Austin, TX, 78711

CAPITOL OFFICE:
P.O. Box 12068
Austin, Texas 78711
512/463-0129
Fax: 512/463-0218
Dial 711 For Relay Calls

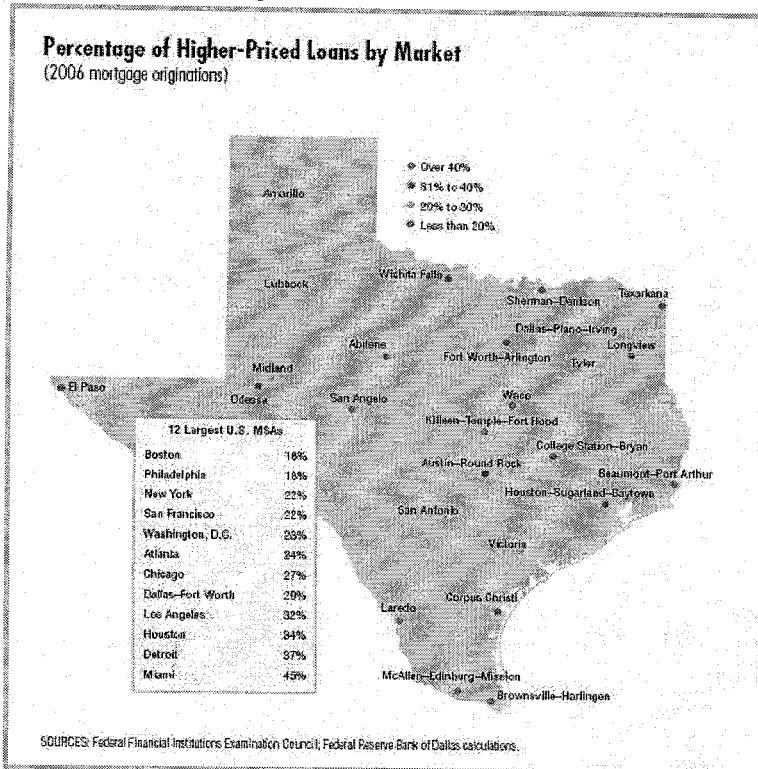
e-mail: eliot.shapleigh@senate.state.tx.us

RE: Subprime mortgage crisis

VIA: Interagency 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.ⁱ 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, especially hard working families along the border, 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.

In Texas, Countrywide Financial Corporation moved its headquarters to Dallas in December 2004, after receiving a \$20 million grant from the Texas Enterprise Fund. On its way to becoming the nation's largest mortgage lender, Countrywide encouraged its sales department to lead potential borrowers to high-cost and sometimes unfavorable loans that resulted in richer commissions for its salesmen, outsized fees to company affiliates servicing the loans, and soaring stock prices that made the company's executives among the highest paid in the nation. It is unfathomable to me why we would use scarce state resources to subsidize such risky lending practices. Furthermore, how many bad loans, delinquencies, and foreclosures in Texas and other states have Countrywide's practices caused?

Ohio Attorney General, Marc Dann, has also taken active steps to prevent Ohio residents from facing foreclosureⁱⁱ. 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.

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I am interested in knowing if you have launched an investigation of Countrywide Financial, or any other companies 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. In the near future, we will schedule a meeting to see what consumers in Texas might expect regarding basic protections against high-priced home loans.

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

Very truly yours,



Eliot Shapleigh

ES/eh

SG/AttorneyGeneral/Abbot/AbbotGmortgageinvestigations

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

ⁱⁱ 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>>.