



The Senate of the State of Texas

COMMITTEES:

Health and Human Services
Nominations
Transportation and Homeland Security
Veterans Affairs & Military
Installations - Vice Chair
Subcommittee on Base Realignment
and Closure - Chair
Sunset Advisory Commission

Senator Eliot Shapleigh
District 29

February 3, 2003

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

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

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

Mr. Alan Greenspan
Chairman
Federal Reserve Board
20th Street and Constitution Avenue, N.W.
Washington, Washington DC 20551

Dear Chairman Greenspan:

My name is Eliot Shapleigh. I am State Senator in El Paso, Texas and a fifth generation El Pasoan. I am concerned about access to capital issues in minority communities in Texas, and especially in my own home town.

Herein below is a chart of the 30 top highest interest rate refinance markets in America today for home mortgages:

	MSA Name	Population	HUD Region	Conventional Refinance Loans	Percent Subprime
	National Urban Total (All 331 MSAs Combined)			1,763,483	25.31
1	El Paso, TX	679,622	6	1,767	47.82
2	Corpus Christi, TX	380,783	6	1,061	46.84
3	Laredo, TX	193,117	6	342	45.32
4	Killeen-Temple, TX	312,952	6	683	44.80
5	Beaumont-Port Arthur, TX	385,090	6	1,160	44.48
6	Miami, FL	2,253,362	4	10,701	42.67
7	Columbus, GA-AL	274,624	4	1,799	42.63
8	San Antonio, TX	1,592,383	6	5,270	41.90
9	Memphis, TN-AR-MS	1,135,614	4	7,577	41.86
10	Galveston-Texas City, TX	250,158	6	944	41.63
11	Fayetteville, NC	302,963	4	1,814	41.23
12	Enid, OK	57,813	6	427	40.75
13	Jamestown, NY	139,750	2	737	40.71
14	Rocky Mount, NC	143,026	4	872	39.68
15	Buffalo-Niagara Falls, NY	1,170,111	2	5,218	39.36
16	Daytona Beach, FL	493,175	4	3,477	38.77
17	Danville, VA	110,156	3	802	38.53
18	McAllen-Edinburg-Mission, TX	569,463	6	1,345	37.62
19	Sumter, SC	104,646	4	734	37.33
20	Victoria, TX	84,088	6	220	37.27

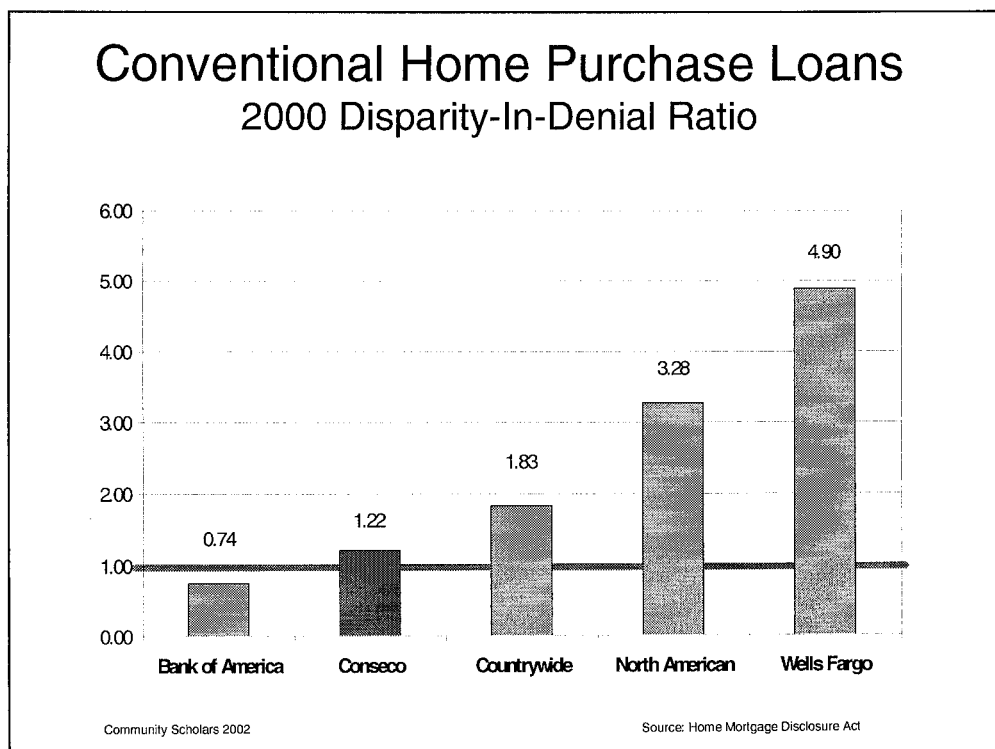


	MSA Name	Population	HUD Region	Conventional Refinance Loans	Percent Subprime
	National Urban Total (All 331 MSAs Combined)			1,763,483	25.31
21	Goldsboro, NC	113,329	4	681	37.00
22	Lakeland-Winter Haven, FL	483,924	4	3,234	36.92
23	Florence, SC	125,761	4	963	36.55
24	Pine Bluff, AR	84,278	6	364	36.54
25	New York, NY	9,314,235	2	23,104	36.50
26	Orlando, FL	1,644,561	4	10,275	36.18
27	Hickory-Morganton-Lenoir, NC	341,851	4	3,481	36.08
28	Charlotte-Gastonia-Rock Hill, NC-SC	1,499,293	4	14,789	36.07
29	Brownsville-Harlingen-San Benito, TX	335,227	6	795	35.97
30	Houston, TX	4,177,646	6	14,552	35.70

Source: John Henneberger, Texas Low Income Housing Information Services, July 2002, using data from the May 2002 *Risk or Race? Racial Disparities and the Subprime Refinance Market* report by the Center for Community Change.

The Community Scholars, a national award winning student leadership group in El Paso, researched home mortgage lending issues last summer. Basically, what they found is that denial rates for minority customers are much higher here than in other communities. Suprisingly, the largest disparities in denial rates occurred among upper-income applicants, which signals that something is wrong in our home lending market.

Herein below is a chart showing the highest denial rate for the top five vendors of mortgage loans in our area:



Mr. Alan Greenspan
Page 3
February 3, 2003

As you can see, Wells Fargo denied five minority applicants for conventional home purchase loans for every one white applicant in the low-to-moderate income level.

What I want to know is what you will do about the access to capital for Hispanic customers in Southwest United States, and especially in this part of Texas. I have taken the liberty to sending this to the Congressional Hispanic Caucus, the Black Congressional Caucus, and others with interest in this matter.

I look forward to a written response as to why my community should expect to pay the highest interest rates in America.

Very truly yours,

Eliot Shapleigh

ES/la

cc: The Honorable Ciro Rodriguez, Chair
Congressional Hispanic Caucus
The Honorable Eddie Bernice Johnson, Chairwoman
Congressional Black Caucus
U.S. Senate Banking Committee - Democratic Delegation
U.S. House Financial Services Committee - Democratic Delegation
Robert D. McTeer, Jr., President/CEO
The Federal Reserve Bank of Dallas
Kwasi Mfume



The Senate of the State of Texas

COMMITTEES:

Health and Human Services
Nominations
Transportation and Homeland Security
Veterans Affairs & Military
Installations - Vice Chair
Subcommittee on Base Realignment
and Closure - Chair
Sunset Advisory Commission

Senator Eliot Shapleigh
District 29

March 25, 2003

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

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

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

Public Information Room, Mailstop 1-5
Office of the Comptroller of the Currency
250 E St. SW,
Washington 20219

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington DC 20551

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th St NW
Washington DC 20429

Regulation Comments, Attention: No. 2004-04
Chief Counsel's Office
Office of Thrift Supervision
1700 G Street NW
Washington DC 20552

VIA FACSIMILE

Dear Officials of Federal Bank and Thrift Agencies:

I write to urge you to withdraw the proposed changes to the Community Reinvestment Act (CRA) regulations. CRA has been instrumental in increasing access to homeownership, boosting economic development, and expanding small businesses in the nation's minority, immigrant, and low- and moderate-income communities. The CRA was created to encourage depository institutions to help meet the credit needs of communities in which they operate,



including low- and moderate-income neighborhoods, consistent with safe and sound banking operations. The proposed revisions are contrary to the CRA statute because they will slow progress made in community reinvestment.

Leaders should embrace legislation that provides our neighbors the opportunities to own their own home or create or expand a small business. We need to promote the economic advancement of minority and low-income populations, not hinder their opportunity to excel economically by facilitating predatory lending and weakening the ability of the general public to hold financial institutions accountable for compliance with consumer protection laws.

Borrowers in the State of Texas are particularly vulnerable to subprime lending. Out of 331 MSA's nationwide, eleven of the top thirty MSA's with the largest percentages of subprime loans are in Texas, with seven of these of these eleven being in the top ten, and four of these top ten being Texas border cities. El Paso has the highest concentration of subprime loans in the nation, with 47.82% of all home loans being subprime. With interest rates on subprime loans commonly 3 or 4 points higher than comparable prime market loans, those who borrow for a new home, business, or to refinance face a difficult road of repayment.

The CRA is a law that allows capitalism to work for all Americans. The law protects minority and low income families and allows them the dream of advancement within our society. The proposed revisions to CRA will allow the elimination of investment and service tests for more than 1,100 banks. This will decrease access to capital in low income communities. The proposed changes will establish a weak predatory lending compliance standard. CRA exams will allow abusive lending if they contain the proposed anti-predatory standard that does not address the problems of the packing of fees into mortgage loans, high prepayment penalties, loan flipping, mandatory arbitration, and other numerous abuses. The CRA was designed to protect minority and low income communities, but with these revisions, where has the protection gone? These proposed revisions will tear the heart out of the CRA and those who it aims to help. Thank you for your allowing me the opportunity to voice my concerns on the matter.

Very truly yours,

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

Eliot Shapleigh

cc: President George W. Bush
National Community Reinvestment Coalition
Treasury Secretary John W. Snow



The Senate of the State of Texas

COMMITTEES:

Health and Human Services
Nominations
Transportation and Homeland Security
Veterans Affairs & Military
Installations - Vice Chair
Subcommittee on Base Realignment
and Closure - Chair
Sunset Advisory Commission

Senator Eliot Shapleigh
District 29

October 1, 2003

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

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

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

The Honorable David Dewhurst
Lieutenant Governor
Capitol, Room 2E.13
Austin, Texas 78701

VIA MAIL

Dear Governor Dewhurst:

Pursuant to our conversation on September 24th, enclosed you will find the Senate Business and Commerce Subcommittee report on Access to Capital.

In particular, I call your attention to mortgage lending in Texas. Of the 331 MSAs in the United States, seven of the top ten highest interest rate areas are in Texas:

	MSA Name	Populati on	HUD Regio n	Conventional Refinance Loans	Percent Subprim e
	National Urban Total (All 331 MSAs Combined)			1,763,483	25.31
1	El Paso, TX	679,622	6	1,767	47.82
2	Corpus Christi, TX	380,783	6	1,061	46.84
3	Laredo, TX	193,117	6	342	45.32
4	Killeen-Temple, TX	312,952	6	683	44.80
5	Beaumont-Port Arthur, TX	385,090	6	1,160	44.48
6	Miami, FL	2,253,362	4	10,701	42.67
7	Columbus, GA-AL	274,624	4	1,799	42.63
8	San Antonio, TX	1,592,383	6	5,270	41.90
9	Memphis, TN-AR-MS	1,135,614	4	7,577	41.86
10	Galveston-Texas City, TX	250,158	6	944	41.63

Source: John Henneberger, Texas Low Income Housing Information Services, July 2002, using data from the May 2002 *Risk or Race? Racial Disparities and the Subprime Refinance Market* report by the Center for Community Change.

1-800-544-1990



The Honorable David Dewhurst

October 1, 2003

Page 2

I look forward to working with you to increase access to capital to all Texans, with special attention to the fast growing Hispanic community.

I know that you share with me the goal of making ordinary access to capital secure for all Texans, regardless of region, ethnicity or gender. I will get with you in the near future with respect to the proposal I discussed with you on the Senate floor.

Very truly yours,

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

Eliot Shapleigh

ES/ks

Enclosure: Senate Business and Commerce Subcommittee Access to Capital Report
California report regarding Wells Fargo Bank initiatives

cc: The Honorable Juan "Chuy" Hinojosa
Chair – Senate Hispanic Caucus

X:\SHAPLEIG\Shapleigh2\Correspondence\Texas Legislature\Dewhurst\Dewhurst Access to Capital Subprime Lending.doc



The Senate of the State of Texas

COMMITTEES:

Health and Human Services
Nominations
Transportation and Homeland Security
Veterans Affairs & Military
Installations - Vice Chair
Subcommittee on Base Realignment
and Closure - Chair
Sunset Advisory Commission

Senator Eliot Shapleigh

District 29

December 17, 2003

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

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

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

The Honorable David Dewhurst
Texas Lieutenant Governor
Second Floor East

Via: Hand Delivery

Dear Governor Dewhurst:

On October 1, 2003, I wrote to you requesting that you make access to capital the focal point of one of your interim committee assignments.

As we have discovered with education, improving the performance of Hispanic students is critical to Texas' future prosperity. Today, 66 percent of first graders in the Dallas Independent School district are Hispanic, and 61 percent is Hispanic in Houston schools. However, because success in education is linked to language barriers and poverty—two problems predominant among Hispanics—many education challenges lie ahead.

The same is true of access to capital. Unless Texas resolves to ensure access to capital for all Texans, regardless of religion, ethnicity or gender, Hispanics will founder, as will Texas's future.

The chart below shows the 10 highest mortgage interest rates in the country. As you can see, seven of the highest rates occur in Hispanic-majority Texas cities:

	MSA Name	Population	HUD Region	Conventional Refinance Loans	Percent Subprime
	National Urban Total (all 331 MSAs Combined)			1,763,483	25.31
1	El Paso, TX	679,662	6	1,767	47.82
2	Corpus Christi, TX	380,783	6	1,061	46.84



3	Laredo, TX	193,117	6	342	45.32
4	Killeen-Temple, TX	312,952	6	683	44.80
5	Beaumont-Port Arthur, TX	385,090	6	1,160	44.48
6	Miami, FL	2,253,362	4	10,701	42.67
7	Columbus, GA-AL	274,624	4	1,799	42.63
8	San Antonio, TX	1,592,383	6	5,270	41.90
9	Memphis, TN-AR-MS	1,135,614	4	7,577	41.86
10	Galveston-Texas City,	250,158	6	944	41.63

Source: John Henneberger, Texas Low Income Housing Information Services, July 2002. Data are from *Risk or Race? Racial Disparities and the Subprime Refinance Market*, a May 2002 report by the Center for Community Change.

As you know, predatory lending has become one of the most critical policy issues facing the financial services industry, particularly in mortgage lending. Nearly every federal financial services regulatory agency has publicly denounced predatory lending and called for more effective regulations to address it. States are implementing a number of initiatives to identify and eliminate predatory financial practices within their borders. Efforts include: educating consumers, conducting targeted examinations, and enforcing tighter regulation of alternative lenders and subprime lenders.

Residents in Texas face incredible financial hardship as a result of excessive credit card debt, bankruptcy, and the inability to make sound financial decisions. Moreover, without the knowledge and skills to make strategic financial decisions, many Texans cannot make the transition from home renters to homeowners, small business dreamers to small business owners, check cashing customers to depository customers, or high-risk, high-interest rate borrowers to competitive borrowers.

I hope that you work with me to resolve these challenges that confront Texans and Texas by including the issue of access to capital in your interim committee assignments.

Very truly yours,

Eliot Shapleigh

ES/eh

C/TL/LtGovernor/DewhurstDAccessstocapitalinterim



The Senate of the State of Texas

COMMITTEES:

Health and Human Services
Nominations
Transportation and Homeland Security
Veterans Affairs & Military
Installations - Vice Chair
Subcommittee on Base Realignment
and Closure - Chair
Sunset Advisory Commission

Senator Eliot Shapleigh
District 29

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

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

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

April 23, 2004

VIA FACSIMILE/REGULAR MAIL

Mr. Jay Bernstein
Bank Supervision Officer
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045-0001
Facsimile: 212-720-1608

RE: Public Comment J. P. Morgan Chase & Co. / Bank One Corporation merger

Dear Mr. Bernstein:

U.S./Mexico Border communities have long been viewed as outposts in the enduring challenge to make the promise of America true for all Americans. Low education levels, desperate per capita incomes and huge concentrations of poverty have long marked the history of these communities.

If the U.S./Mexico Border were the 51st state in the United States, it would be ranked #1 among all the states for the highest poverty rate; #1 for the highest poverty rate among school aged children; #1 in unemployment; and #1 in the highest percentage of adults without a high school education.

Fortunately, we are beginning to see a shift in these trends. Some examples include:

- ✓ "According to the Manpower Employment Outlook Survey, Brownsville ranked seventh best in the nation for its near-term employment prospects. Forty-eight percent of Brownsville employers will add employees between April and June." (*Brownsville Herald*, March 23, 2004)



- ✓ “Growing cities with diverse, stable economies—not the booming high-tech ‘new economies’ of the 1990s—are the big winners in this year’s Milken Institute Best Performing Cities index.” Among the top ten cities listed are three Texas/Mexico border cities: Laredo (#7), Brownsville (#8) and McAllen (#9). (*Best Performing Cities: Where America’s Jobs Are Created*, June 25, 2003, Press release by the Milken Institute)

There is a documented shift in economic opportunity occurring along the Texas / Mexico Border.

Except in El Paso.

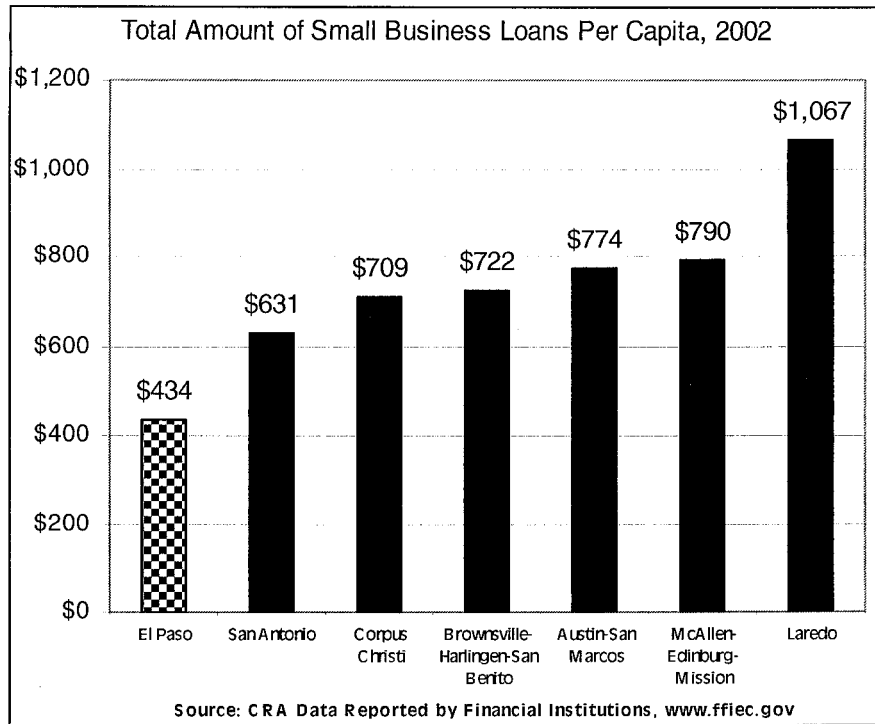
Why is it that Border cities like Brownsville, McAllen and Laredo are beginning to see promising increases in economic input, productivity and job creation, while El Paso’s economy continues to limp along with no remarkable economic achievements to indicate sustainable gains. The demographics of Border communities—per capita incomes, ethnic and racial makeup, percentage of Spanish speaking residents, levels of educations, poverty levels—are similar the whole length of the Border. So, why the difference in our economies?

The most glaring difference between these Border economies can be witnessed from the cities’ freeways. Brownsville’s, Laredo’s and McAllen’s freeways are crowded with bank billboards competing for customers by offering the most convenient banking hours, free banking services and competitive loan products. El Paso’s freeways are infrequently visited by such bank billboards, and when they are, they mostly serve as reminders of the bank’s presence in the market without highlighting competitive advantage or competitive products.

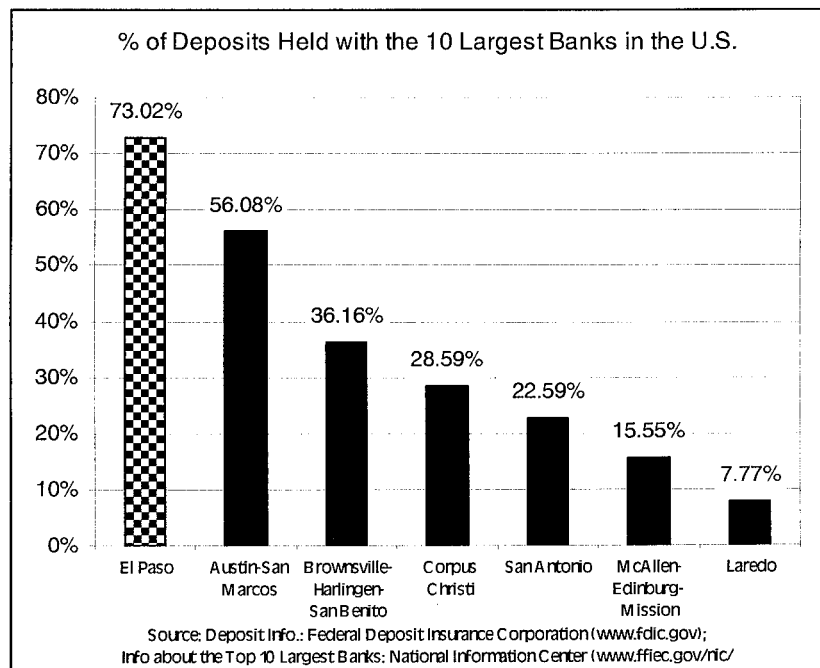
Brownsville, Laredo and McAllen are hotbeds of fierce competition in the banking sector. The competition is primarily driven by homegrown banks that are intimately familiar with border economies and international trade. El Paso’s banking sector, on the other hand, is dominated by the three of the largest multinational banks in the United States. As of the June 30, 2003 reporting period, Wells Fargo, J. P. Morgan Chase Bank (JPMC) and Bank of America accounted for 72.17% of El Paso’s bank deposits, effectively making El Paso one of the least competitive banking markets in Texas.

It is this concentration of multinational banks—a result of unchecked mergers and acquisitions with no attending CRA commitments—that has devastated El Paso’s economy during a time when small business growth could have mitigated the impact of huge NAFTA job losses. Essentially what El Paso has seen is that our community deposits are harvested by these multinational banks and sown in other markets.

Impact of multinational market concentration on small business lending. Access to capital, especially for small businesses, is the foundation of economic growth. You can’t have a free market and vibrant entrepreneurial capitalism without capital. As is evident in comparing El Paso’s banking market to other Border cities, a critical component of capital access is competition. A comparison of six Texas MSAs in 2002 and the amount of small business loans per capita clearly demonstrates how the market concentration of multinational banks in El Paso has hurt El Paso’s economy. El Paso is outpaced by all of the other Texas MSAs in the amount of small business loans per capita, including McAllen, Laredo and Brownsville.



Conversely, the deposit concentration of the top 10 largest banks in the United States is most dramatic in El Paso when compared to the other Texas MSAs. Laredo, which has the largest amount of small business loans per capita (\$1,067), also has the least amount of market concentration of the top 10 largest banks in the United States (7.77%).



Just as the United States Small Business Administration Office of Advocacy stated in a February, 2004 report, bank consolidation limits small business access to credit. In El Paso, excessive concentration of market share by large out of town multinational banks resulted in decreased access to capital for small businesses.

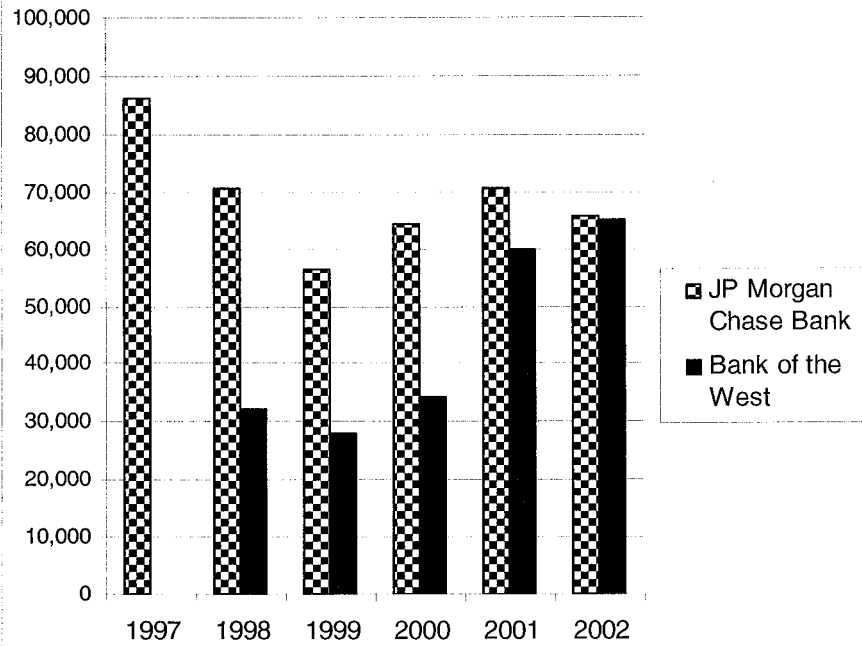
JP Morgan Chase Bank's Role in Small Business Lending in El Paso, Texas. As a market leader in deposit share in El Paso, it should follow that JP Morgan Chase Bank (JPMC) should also be a market leader in small business lending. However, this is not the case. As noted by the Federal Reserve Bank of New York (FRBNY) in its September 2003 CRA Exam of JPMC in El Paso, "Deposit market share was not fully commensurate with lending market share. In 2001, JPMC Bank ranked fifth in HMDA-related lending and fifth in small business lending. The bank ranks second in deposit market share." Moreover, JPMC has shown no indication of improving this disparity. As the FRBNY also notes, JPMC's lending in El Paso grew only 29% since its last exam, while in other markets lending grew by 93% (Dallas) and 97% (Houston).

In 1997, Texas Commerce Bank was acquired by Chase Bank of Texas. In 2001, JP Morgan and Chase Bank merged to form JP Morgan Chase Bank. Throughout this period of acquisitions and mergers, the Bank has maintained a large share of El Paso's deposits ranging from 24 to 30% of the market. Despite this market dominance and assurances that responsiveness to the community would not decline as a result of the acquisitions and mergers, the Bank's small business loan volume has declined from 1997 to 2002 while at the same time the aggregate's loan volume has increased. In fact, JPMC has a smaller small business loan volume in 2002 than Texas Commerce Bank had in 1997.

Relative to other banks in El Paso, JPMC does not fare well. A comparison of JPMC's record of small business lending to Bank of the West's record of small business lending clearly demonstrates that JPMC does not serve the reinvestment interests of the El Paso community as legislated by the Community Reinvestment Act. From 1997 to 2002, Bank of the West has been 4th in the market in terms of deposit market share. It has grown from 8% of deposit market share to 11% of market share. Bank of the West's deposits are half the size of JPMC's deposits, yet it is lending at the same volume as JPMC. In its CRA exam of El Paso, the FRBNY states "growth in the aggregate's small business volume exceeded JPMC Bank."

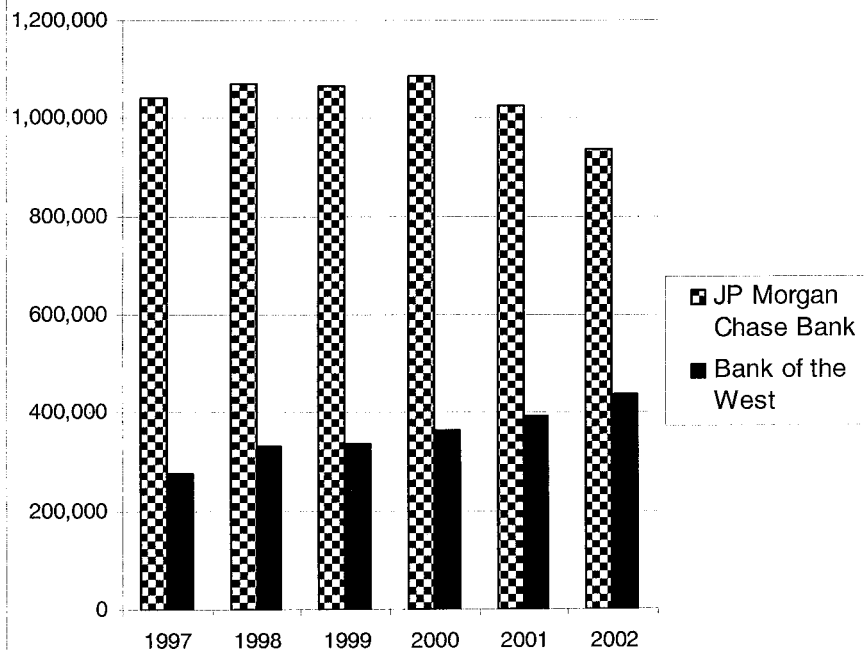
JPMC's small business lending should be at least double the production of Bank of the West's. If the three market leaders in El Paso increased their lending to be commensurate with their deposit shares, El Paso would begin to see sustainable economic gains similar to those in Laredo, Brownsville and McAllen.

**Small Business Loan Volume (000s):
Comparison of Two El Paso Banks**



* Source: Data Provided by Banks for Community Reinvestment Act
(Available at www.ffiec.gov)

Deposits (000s) of Two El Paso Banks



* Source: Data Provided by Banks for the Community Reinvestment Act
(Available at www.ffiec.gov)

Excessive market concentration of the combined JP Morgan Chase Bank / Bank One bank in Texas will result in less competition and less economic activity in Texas. Let El Paso serve as an example of how debilitating the lack of competition in a community's banking sector can be on a community's economy. The merger of JPMC with Bank One will significantly decrease competition in Texas. The combined concentration of the merger will result in a bank with 22.09% of Texas deposits and 42.99% of Houston deposits. This concentration in Texas is in excess of the 20% cap imposed by Texas State law.

A decrease in competition will decrease the state's loan-to-deposit ratio, which is already one of the lowest in the country. An evaluation of the impact of Texas' poor loan-to-deposit ratio by The Perryman Group revealed that the losses to the Texas economy in 2000 were: \$55.3 billion in annual Gross State Product, \$31.7 billion in annual Personal Income and 670,803 Permanent Jobs. Texas cannot afford the economic stasis that results from lack of competition in banking markets.

The chart below shows the relationship between market share of deposits to small business lending if the merger goes through in key Texas markets.

J.P. Morgan Chase & Co./Bank One Corp. (Combined)

Comparison of Market Shares for Deposits, Amount of Small Business Loans in Selected Texas Markets

(Business Loans to Entities with less than \$1MM in Revenue)
As of June 30, 2003

Market	Deposit Share	Dollar Share in Small Business Loans
Austin	20.81%	8.57%
Dallas	21.97%	11.58%
Fort Worth	21.54%	7.96%
San Antonio	4.50%	5.58%
Houston		
Unadjusted ¹	42.99%	12.78%
Adjusted ²	28.24%	12.78%

¹ Deposit share as originally reported in June 30, 2004 FDIC Summary of Deposits.

² Deposit share after correcting errors in original Summary of Deposits report, and excluding approximately \$22 Billion in "non-Texas" deposits.

Competitive markets are replaced by captured markets. Subprime lending and predatory loan pricing and packaging has grown significantly in the last several years. Because of its demographics and the lack of affordable alternatives, El Paso has been hit especially hard by increases in this type of lending and the attending risks that these high priced loans present for a community. In a report released by the Center for Community Change titled, *Risk or Race: An Analysis of the Racial Disparities in Subprime Refinance Lending for 2000 in the Nation's 331 Metropolitan Areas*, seven Texas cities were ranked among the top ten U.S. cities having the highest percentages of subprime activity in refinance mortgage lending. El Paso was ranked # 1 with over 48% percent of conventional refinance loans reported as subprime.

	MSA Name	Population	HUD Region	Conventional Refinance Loans	Percent Subprime
	National Urban Total (All 331 MSAs Combined)			1,763,483	25.31
1	El Paso, TX	679,622	6	1,767	47.82
2	Corpus Christi, TX	380,783	6	1,061	46.84
3	Laredo, TX	193,117	6	342	45.32
4	Killeen-Temple, TX	312,952	6	683	44.80
5	Beaumont-Port Arthur, TX	385,090	6	1,160	44.48
6	Miami, FL	2,253,362	4	10,701	42.67
7	Columbus, GA-AL	274,624	4	1,799	42.63
8	San Antonio, TX	1,592,383	6	5,270	41.90
9	Memphis, TN-AR-MS	1,135,614	4	7,577	41.86
10	Galveston-Texas City, TX	250,158	6	944	41.63
11	Fayetteville, NC	302,963	4	1,814	41.23
12	Enid, OK	57,813	6	427	40.75
13	Jamestown, NY	139,750	2	737	40.71
14	Rocky Mount, NC	143,026	4	872	39.68
15	Buffalo-Niagara Falls, NY	1,170,111	2	5,218	39.36
16	Daytona Beach, FL	493,175	4	3,477	38.77
17	Danville, VA	110,156	3	802	38.53
18	McAllen-Edinburg-Mission, TX	569,463	6	1,345	37.62
19	Sumter, SC	104,646	4	734	37.33
20	Victoria, TX	84,088	6	220	37.27
21	Goldsboro, NC	113,329	4	681	37.00
22	Lakeland-Winter Haven, FL	483,924	4	3,234	36.92
23	Florence, SC	125,761	4	963	36.55
24	Pine Bluff, AR	84,278	6	364	36.54
25	New York, NY	9,314,235	2	23,104	36.50
26	Orlando, FL	1,644,561	4	10,275	36.18
27	Hickory-Morganton-Lenoir, NC	341,851	4	3,481	36.08
28	Charlotte-Gastonia-Rock Hill, NC-SC	1,499,293	4	14,789	36.07
29	Brownsville-Harlingen-San Benito, TX	335,227	6	795	35.97
30	Houston, TX	4,177,646	6	14,552	35.70

Source: John Henneberger, Texas Low Income Housing Information Services, July 2002, using data from the May 2002 *Risk or Race? Racial Disparities and the Subprime Refinance Market* report by the Center for Community Change.

One effect of the active subprime market and questionable loan practices in El Paso has been a recent spike in foreclosures, especially in government-backed loans. From April 1999 to March 2003, 701 HUD foreclosed loans were reported. Of these 701 loans, 122 or 17.4% were loans owned by Chase Manhattan Mortgage Corporation. Chase Manhattan Mortgage Corporation has the dubious distinction of being the market leader in HUD foreclosures in El Paso.

Chase Manhattan Mortgage Corporation (CMMC), an affiliate of JPMC, has been identified by HUD as a subprime lender and has identified its subprime pricing and practices in its response to questions from the FRBNY. I am concerned that CMMC's subprime pricing and practices both for originations and purchases are putting El Paso homeowners into precarious financial situations that could be avoided. A high concentration of HUD foreclosures in our fastest growing zip code—79936—has resulted in HUD designating this zip code as a “revitalization” area. Our neighborhoods are also at risk.

Community Reinvestment Act. JPMC was given an “Outstanding” on its most recent CRA exam administered by the Federal Reserve Board of New York and the Bank has used this ranking to defend its merger application against those that contend that they are not meeting their obligations under CRA. JPMC El Paso was given a full review in this recent exam. Despite its “adequate” performance in El Paso, the FRBNY gave the bank an overall rating of “outstanding.”

The intent of the CRA is that a bank has “continuing and affirmative obligations to help meet the credit needs of the local communities in which they are chartered.” It is not adequate to the charge set forth by CRA for the FRBNY or for us as a community to respond that a bank is meeting its CRA obligations if it performs above average in one of its markets, while ignoring its obligations in another.

The Federal Reserve Board of New York should not approve the merger of J.P. Morgan Chase & Co. and Bank One Corporation until such time as it has commitments from the merging banks to the following:

- ✓ A detailed CRA commitment contract with specific commitments in Texas that includes specific remedies and goals for maintaining community responsiveness in markets that will be significantly impacted by the combined banks' excessive market concentration.
- ✓ A detailed CRA commitment contract that includes specific remedies and goals for increasing loan activity in communities, such as El Paso, where J.P. Morgan Chase and Bank One are not currently meeting their obligations under CRA.
- ✓ A Texas plan that addresses the issue of excessive market concentration. It is not adequate for the Banks to just shift deposits to other markets in order to come below the cap. The banks should consider selling bank assets in local Texas markets where their market concentration stifles competition.
- ✓ A detailed plan for adopting best practices and reforms of the Government Sponsored Enterprises (GSEs) Fannie Mae and Freddie Mac regarding subprime lending to include 1) not originating or purchasing subprime loans with single premium credit insurance, 2) not originating or purchasing loans with points and fees exceeding five percent of the loan amount, 3) not originating or purchasing loans with mandatory arbitration clauses and 4) not originating or purchasing loans with prepayment penalties beyond three years.

Very truly yours,

A handwritten signature in black ink that reads "Eliot Shapleigh". The script is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Eliot Shapleigh

ES/sb

Attachments:

- A state by state comparison of loan-to-deposit ratios
- JPMC El Paso CRA exam, Full review
- Source data for all graphs
- Subprime Lending in Texas, Why Texas Borrowers are Particularly Vulnerable



The Senate of the State of Texas

COMMITTEES:

Health and Human Services
Nominations
Transportation and Homeland Security
Veterans Affairs & Military
Installations - Vice Chair
Subcommittee on Base Realignment
and Closure - Chair
Sunset Advisory Commission

Senator Eliot Shapleigh
District 29

October 25, 2004

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

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

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

The Honorable David Dewhurst
Lieutenant Governor of Texas
Capitol Building, Room 2E.13
Austin, Texas 78711

VIA HAND DELIVERY

Dear Governor Dewhurst:

As you know, our office has a keen interest in expanding access to capital to all Texans. Along with the need for excellent public education and access to quality health care, access to capital is one of the most important issues in our great state. Particularly, in Hispanic Texas, we have a clear lack of access to capital. Unless Texas acts to provide ordinary access to capital and credit for Hispanic Texans, we will retard the economic growth of the entire state.

I am sending our 2004 Access to Capital report, which details some of the lending and access to capital challenges facing Texas. In particular, I point out the abysmal loan-to-deposit ratio and the alarming rate of subprime lending in Texas.

Herein below is a chart showing the loan-to-deposit ratio for the 15 most populous states in the nation on which Texas ranks second to lowest.

Host State 2004 Loan-to-Deposit Ratios, 15 Most Populous States

State and Population (in millions as of July 1999) Ordered by Ratio	2004 Ratio
Indiana (5.9)	163
Ohio (11.2)	119
California (33.1)	105



Washington (5.8)	105
Georgia (7.8)	102
Michigan (9.9)	101
New York (18.2)	86
North Carolina (7.7)	82
Florida (15.1)	81
Massachusetts (6.2)	72
Virginia (6.9)	71
Pennsylvania (12.0)	69
Texas (20.0)	68
New Jersey (8.1)	58

Population Source: Legislative Budget Board 2000 Fact Book; Ratio Data: FDIC, using data as of June 30, 2003

In 2003, the Perryman Group analyzed the strain on the Texas economy due to the low loan-to-deposit ratio. Dr. Perryman estimated that in 2000, 670,803 permanent jobs and \$55.3 billion in annual Gross State Product were lost as a result of this low ratio.

Further, in Texas, subprime lending for refinance loans is an epidemic. In the United States, seven of the ten highest mortgage interest rate areas are in Texas; while nationally subprime lending represents about 25 of refinance loans in any given MSA, Texas communities greatly exceed that average. The below chart shows the 30 MSAs in the nation with the highest average of subprime refinance loans.

MSA Ranking by Overall Percentage of Subprime Refinance Loans

Rank	MSA Name	Population	Conventional Refinance Loans	Percent Subprime
1	El Paso, TX	679,622	1,767	47.82
2	Corpus Christi, TX	380,783	1,061	46.84
3	Laredo, TX	193,117	342	45.32
4	Killeen-Temple, TX	312,952	683	44.80
5	Beaumont-Port Arthur, TX	385,090	1,160	44.48
6	Miami, FL	2,253,362	10,701	42.67
7	Columbus, GA-AL	274,624	1,799	42.63
8	San Antonio, TX	1,592,383	5,270	41.90
9	Memphis, TN-AR-MS	1,135,614	7,577	41.86

10	Galveston-Texas City, TX	250,158	944	41.63
11	Fayetteville, NC	302,963	1,814	41.23
12	Enid, OK	57,813	427	40.75
13	Jamestown, NY	139,750	737	40.71
14	Rocky Mount, NC	143,026	872	39.68
15	Buffalo-Niagara Falls, NY	1,170,111	5,218	39.36
16	Daytona Beach, FL	493,175	3,477	38.77
17	Danville, VA	110,156	802	38.53
18	McAllen-Edinburg-Mission, TX	569,463	1,345	37.62
19	Sumter, SC	104,646	734	37.33
20	Victoria, TX	84,088	220	37.27
21	Goldsboro, NC	113,329	681	37.00
22	Lakeland-Winter Haven, FL	483,924	3,234	36.92
23	Florence, SC	125,761	963	36.55
24	Pine Bluff, AR	84,278	364	36.54
25	New York, NY	9,312,235	23,104	36.50
26	Orlando, FL	1,644,561	10,275	36.18
27	Hickory-Morganton-Lenoir, NC	341,851	3,481	36.08
28	Charlotte-Gastonia-Rock Hill, NC-SC	1,499,293	14,789	36.07
29	Brownsville-Harlingen-San Benito, TX	335,227	795	35.97
30	Houston, TX	4,177,646	14,552	35.70

Source: Texas Low Income Housing Information Service, using data from the May 2002 *Risk or Race? Racial Disparities and the Subprime Refinance Market* report by the Center for Community Change

I hope you will join me in developing an aggressive agenda to address access to capital issues. In researching and writing the Access to Capital report, I had the opportunity to explore possible state actions that would open access to capital to all Texans and curb the predatory and abusive lending practices that can plague communities. Among the recommendations that result from the information gathered for the report are:

1. Develop a comprehensive financial literacy program for high school students that teaches the necessary skills to gain fair and useful access to capital.
2. Clearly define the parameters of subprime lending and give State regulators clear authority to monitor subprime lenders.
3. Require full disclosure of information on subprime loans, alternative avenues for mortgage counseling, and full and clear information on the mortgage contract in question in instances of a high interest mortgage loan or mortgage refinance loan.

Lt. Governor Dewhurst
October 22, 2004
Page 4

4. Prohibit the acceleration of mortgage loan indebtedness at the entire discretion of the lender.
5. Further regulate the payday lending market through rate caps, further disclosure and clearer regulatory authority.

I look forward to meeting with you soon on this issue.

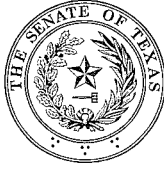
Very truly yours,

Eliot Shapleigh

ES/ks

enclosure: Texas Borderlands, Chapter 11: Access to Capital and Credit

X:\SHAPLEIG\Shapleigh2\2004Correspondence\Texas Legislature\Lt. Gov\Dewhurst\Dewhurstd access to capital chapter and
recs.doc



The Senate of the State of Texas

COMMITTEES:

Health and Human Services
Nominations
Transportation and Homeland Security
Veterans Affairs & Military
Installations - Vice Chair
Subcommittee on Base Realignment
and Closure - Chair
Sunset Advisory Commission

Senator Eliot Shapleigh
District 29

December 1, 2004

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

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

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

The Honorable Greg Abbott
Office of the Attorney General of Texas
Post Office Box 12548
Austin, Texas 78711-2548

VIA UNITED STATES MAIL

Dear Attorney General Abbott:

I congratulate you on your cyber crime unit task force on sexual predators. As a member of the 1997 Senate Interim Committee on Sex Offenders, I know the devastating effect that sexual predators have had in our communities and on our children.

However, I write to ask about another issue that I believe needs the dedicated attention of a task force — predatory lending. On June 21, 2004, I wrote you with respect to predatory lending and the devastating effect it is having on Texas families, especially those along the Border. That letter was an open records request asking for documents pertaining to the Household International settlement. Your office's prompt response was greatly appreciated. However, Household International was just one of many companies doing business in our state to the detriment of Texas consumers; thus, today I write to urge you to help protect Texas' vulnerable communities from abusive lending practices.

Below is a list of the top highest mortgage refinance interest rates in the United States today. As the below table shows, out of 331 MSAs nationwide, eleven of the top thirty MSAs with the largest percentages of subprime loans are in Texas, and four of the highest are Texas Border cities.



	MSA Name	Population	HUD Region	Conventional Refinance Loans	Percent Subprime
	National Urban Total (All 331 MSAs Combined)			1,763,483	25.31
1	El Paso, TX	679,622	6	1,767	47.82
2	Corpus Christi, TX	380,783	6	1,061	46.84
3	Laredo, TX	193,117	6	342	45.32
4	Killeen-Temple, TX	312,952	6	683	44.80
5	Beaumont-Port Arthur, TX	385,090	6	1,160	44.48
6	Miami, FL	2,253,362	4	10,701	42.67
7	Columbus, GA-AL	274,624	4	1,799	42.63
8	San Antonio, TX	1,592,383	6	5,270	41.90
9	Memphis, TN-AR-MS	1,135,614	4	7,577	41.86
10	Galveston-Texas City, TX	250,158	6	944	41.63
11	Fayetteville, NC	302,963	4	1,814	41.23
12	Enid, OK	57,813	6	427	40.75
13	Jamestown, NY	139,750	2	737	40.71
14	Rocky Mount, NC	143,026	4	872	39.68
15	Buffalo-Niagara Falls, NY	1,170,111	2	5,218	39.36
16	Daytona Beach, FL	493,175	4	3,477	38.77
17	Danville, VA	110,156	3	802	38.53
18	McAllen-Edinburg-Mission, TX	569,463	6	1,345	37.62
19	Sumter, SC	104,646	4	734	37.33
20	Victoria, TX	84,088	6	220	37.27
21	Goldsboro, NC	113,329	4	681	37.00
22	Lakeland-Winter Haven, FL	483,924	4	3,234	36.92
23	Florence, SC	125,761	4	963	36.55
24	Pine Bluff, AR	84,278	6	364	36.54
25	New York, NY	9,314,235	2	23,104	36.50
26	Orlando, FL	1,644,561	4	10,275	36.18
27	Hickory-Morganton-Lenoir, NC	341,851	4	3,481	36.08
28	Charlotte-Gastonia-Rock Hill, NC-SC	1,499,293	4	14,789	36.07
29	Brownsville-Harlingen-San Benito, TX	335,227	6	795	35.97
30	Houston, TX	4,177,646	6	14,552	35.70

Source: John Henneberger, Texas Low Income Housing Information Services, July 2002, using data from the May 2002 *Risk or Race? Racial Disparities and the Subprime Refinance Market* report by the Center for Community Change.

Texas' Border families are being devastated by some of the highest mortgage interest rates in the country. Moreover, these exorbitant rates are often imposed under predatory lending regimes where disclosures are not made, disclosures are made improperly, or flat out lies are told to families to illicit higher interest mortgage loans.

The Honorable Greg Abbott
December 1, 2004
Page 3

I want to know what you plan to do about this epidemic, and what our communities along the Border can expect from your office in this regard. Additionally, I would like to meet with you to discuss the epidemic of predatory lending in Texas and see how we can work together to combat this problem.

Finally, I have enclosed a recent article from the New York Times on credit card abuse, another issue of predatory business practices, which I will raise with you when we meet.

Very Truly Yours,

Eliot Shapleigh

ES/ks

Enclosure: New York Times article

X:\SHAPLEIG\Shapleigh2\2004Correspondence\State Government\Attorney General, Office of Abbott\predatorylendingtaskforce.doc



The Senate of the State of Texas

COMMITTEES:

Health and Human Services
Nominations
Transportation and Homeland Security
Veterans Affairs & Military
Installations - Vice Chair
Subcommittee on Base Realignment
and Closure - Chair
Sunset Advisory Commission

Senator Eliot Shapleigh
District 29

January 26, 2005

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

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

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

The Honorable David Dewhurst
Lieutenant Governor of Texas
Capitol Building, Room 2E.13
Austin, Texas 78711

VIA HAND DELIVERY

Dear Governor Dewhurst:

Pursuant to our conference on January 26th, I write to share a report that outlines the State's lending environment and addresses some of the barriers Texans find in trying to access capital and credit. Enclosed is the Senate Business and Commerce Interim Report on Lending Practices and Access to Capital. During the 77th Interim, I chaired the subcommittee that studied Texas' lending environment and this minority report is the culmination of those months of statewide information gathering.

Most shocking is the prevalence of subprime lending in Texas communities, particularly Texas Border communities. Herein below is a chart that shows the highest instances of subprime mortgage lending rates in the country. In the United States, seven of the ten highest mortgage interest rate areas are in Texas. Nationally subprime lending represents about 25 of refinance loans in any given MSA; however, Texas communities greatly exceed that average. The below chart shows the 30 MSAs in the nation with the highest average of subprime refinance loans.

MSA Ranking by Overall Percentage of Subprime Refinance Loans

Rank	MSA Name	Population	Conventional Refinance Loans	Percent Subprime
1	El Paso, TX	679,622	1,767	47.82
2	Corpus Christi, TX	380,783	1,061	46.84
3	Laredo, TX	193,117	342	45.32
4	Killeen-Temple, TX	312,952	683	44.80
5	Beaumont-Port Arthur, TX	385,090	1,160	44.48
6	Miami, FL	2,253,362	10,701	42.67



7	Columbus, GA-AL	274,624	1,799	42.63
8	San Antonio, TX	1,592,383	5,270	41.90
9	Memphis, TN-AR-MS	1,135,614	7,577	41.86
10	Galveston-Texas City, TX	250,158	944	41.63
11	Fayetteville, NC	302,963	1,814	41.23
12	Enid, OK	57,813	427	40.75
13	Jamestown, NY	139,750	737	40.71
14	Rocky Mount, NC	143,026	872	39.68
15	Buffalo-Niagara Falls, NY	1,170,111	5,218	39.36
16	Daytona Beach, FL	493,175	3,477	38.77
17	Danville, VA	110,156	802	38.53
18	McAllen-Edinburg-Mission, TX	569,463	1,345	37.62
19	Sumter, SC	104,646	734	37.33
20	Victoria, TX	84,088	220	37.27
21	Goldsboro, NC	113,329	681	37.00
22	Lakeland-Winter Haven, FL	483,924	3,234	36.92
23	Florence, SC	125,761	963	36.55
24	Pine Bluff, AR	84,278	364	36.54
25	New York, NY	9,312,235	23,104	36.50
26	Orlando, FL	1,644,561	10,275	36.18
27	Hickory-Morganton-Lenoir, NC	341,851	3,481	36.08
28	Charlotte-Gastonia-Rock Hill, NC-SC	1,499,293	14,789	36.07
29	Brownsville-Harlingen-San Benito, TX	335,227	795	35.97
30	Houston, TX	4,177,646	14,552	35.70

Source: Texas Low Income Housing Information Service, using data from the May 2002 *Risk or Race? Racial Disparities and the Subprime Refinance Market* report by the Center for Community Change

I hope to work with you to eliminate barriers to access to capital and credit so that all of us can enjoy a great education, quality health care, and the ordinary access to capital that has been the foundation for the American dream.

Very truly yours,



Eliot Shapleigh

ES/ks

enclosure: Senate Business and Commerce Subcommittee minority report on lending practices and access to capital and credit

X:\SHAPLEIG\Shapleigh2\2004-05 Correspondence\Texas Legislature\Lt. Gov\Dewhurst\Dewhurstd accesstocapital report.doc



The Senate of the State of Texas

COMMITTEES:

Health and Human Services
Nominations
Transportation and Homeland Security
Veterans Affairs & Military
Installations - Vice Chair
Subcommittee on Base Realignment
and Closure - Chair
Sunset Advisory Commission

Senator Eliot Shapleigh
District 29

February 7, 2005

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

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

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

The Honorable David Dewhurst
Lieutenant Governor of Texas
Capitol Building, Room 2E.13
Post Office Box 12068
Austin, Texas 78711

VIA HAND DELIVERY

Dear Governor Dewhurst:

I am writing to inform you about several pieces of legislation that I consider top priority for this session. I have been working for years on the concepts outlined below and ask that you work with me to move these important concepts through the legislative process.

Health Insurance

S.B. 70

S.B. 70 will require state agencies to consider, when cost and other factors are equal, whether or not a bidder of government contracts provides health insurance to its employees, before a contract is awarded. As you know, more and more employers are dropping coverage, which is gravely impacting our Texas workforce. In El Paso, 32 percent of the population is uninsured. And, with the rising cost of health care, workers are finding it more difficult to purchase coverage on their own.

We should reward those employers that opt to do the responsible thing and help solve the health care crisis in our state. I believe S.B. 70 would go a long way toward telling our employers that this is a priority, and ensuring that more Texas families get the access to health care that they deserve.



S.B. 169

As you know, small businesses are the main generators of employment in our economy but also have a difficult time in providing health benefits. I have been working with umbrella groups representing small businesses during the interim and have filed S.B. 169, which would provide a refund of state sales and use taxes for small businesses that provide group health benefit plans to their employees.

Access to Capital

Financial Literacy

Residents in Texas face incredible financial hardship as a result of excessive credit card debt, bankruptcy, and an inability to make sound financial decisions about credit and savings matters. Moreover, without the knowledge and skills to make strategic financial decisions, Texans cannot make the transition from home renters to homeowners, small business dreamers to small business owners, check cashing customers to depository customers and from high risk, high interest rate borrowers to competitive borrowers.

I will file a bill that requires the Texas Education Agency to collaborate with the Office of Consumer Credit Commissioner and the State Securities Board to develop a financial literacy education program for adults and children, and work with public institutions of higher education and the Department of Information Resources to make the program available to the public.

Predatory Lending

Predatory lending has become one of the most critical issues facing the Texans today, particularly for middle- to low-income communities. While finding a clear definition of predatory lending is difficult due to the complexity of determining the appropriate level of fees for a given level of risk, predatory lending is characterized by excessively high interest rates or fees, and abusive or unnecessary provisions that do not benefit the borrower. Predatory lenders often target their services to particularly vulnerable consumers. They look for people who are not adept in financial matters and lack the financial sophistication to scrutinize loans. Nearly every federal financial services regulatory agency has publicly denounced predatory lending and called for more effective regulation to address it. States are implementing a number of initiatives to identify and eliminate predatory financial practices within their borders.

I will file a bill that allows Texas consumers to enter into financial relationships with certain basic protections. The State must further regulate the actions of unscrupulous lenders by requiring that they do business in a fair and open manner. This legislation will require clear disclosure of loan terms and prohibit misleading representations by lenders; and will outlaw the most egregious lending practices.

Military Support

Defense Economic Adjustment Assistance Grant (DEAAG)

The Department of Defense has asserted that there could be as much as a 25 percent reduction in U.S. installations and missions in order to transform the military to an effective force. If this assertion is applied to Texas' defense community, the State could see as many as four installations or missions closed or reduced. After the 1995 BRAC round, where Texas saw two major installations closed and five other facilities closed, the 75th Legislature appropriated \$20 million to the DEAAG Program to be distributed to communities struggling to recover from the economic hardship of the loss. In subsequent years the 76th and 77th Legislatures each appropriated \$1 million with which to assist communities.

I will file a bill and submit a Finance Rider that requests \$30 million for defense communities to use to prepare for BRAC 2005 and to use in the wake of BRAC 2005 to cope with the impact on the community infrastructure and economy.

I appreciate your support on these critical concepts and look forward to working with you to help Texas become a stronger, more vibrant place to live and work.

Very truly yours,

Eliot Shapleigh

ES/av

Enclosure: S.B. 70
S.B. 169



The Senate of the State of Texas

COMMITTEES:

Health and Human Services
Nominations
Transportation and Homeland Security
Veterans Affairs & Military
Installations - Vice Chair
Subcommittee on Base Realignment
and Closure - Chair
Sunset Advisory Commission

Senator Eliot Shapleigh
District 29

February 8, 2005

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

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

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

The Honorable Rick Perry
Governor of Texas
Capitol Building, Room 2S.1
Post Office Box 12428
Austin, Texas 78711

VIA HAND DELIVERY

Dear Governor Perry:

I am writing to inform you about several pieces of legislation that I consider top priority for this session. I have been working for years on the concepts outlined below and ask that you work with me to move these important concepts through the legislative process.

Health Insurance

S.B. 70

S.B. 70 will require state agencies to consider, when cost and other factors are equal, whether or not a bidder of government contracts provides health insurance to its employees, before a contract is awarded. As you know, more and more employers are dropping coverage, which is gravely impacting our Texas workforce. In El Paso, 32 percent of the population is uninsured. And, with the rising cost of health care, workers are finding it more difficult to purchase coverage on their own.

We should reward those employers that opt to do the responsible thing and help solve the health care crisis in our state. I believe S.B. 70 would go a long way toward telling our employers that this is a priority, and ensuring that more Texas families get the access to health care that they deserve.



S.B. 169

As you know, small businesses are the main generators of employment in our economy but also have a difficult time in providing health benefits. I have been working with umbrella groups representing small businesses during the interim and have filed S.B. 169, which would provide a refund of state sales and use taxes for small businesses that provide group health benefit plans to their employees.

Access to Capital

Financial Literacy

Residents in Texas face incredible financial hardship as a result of excessive credit card debt, bankruptcy, and an inability to make sound financial decisions about credit and savings matters. Moreover, without the knowledge and skills to make strategic financial decisions, Texans cannot make the transition from home renters to homeowners, small business dreamers to small business owners, check cashing customers to depository customers and from high risk, high interest rate borrowers to competitive borrowers.

I will file a bill that requires the Texas Education Agency to collaborate with the Office of Consumer Credit Commissioner and the State Securities Board to develop a financial literacy education program for adults and children, and work with public institutions of higher education and the Department of Information Resources to make the program available to the public.

Predatory Lending

Predatory lending has become one of the most critical issues facing the Texans today, particularly for middle- to low-income communities. While finding a clear definition of predatory lending is difficult due to the complexity of determining the appropriate level of fees for a given level of risk, predatory lending is characterized by excessively high interest rates or fees, and abusive or unnecessary provisions that do not benefit the borrower. Predatory lenders often target their services to particularly vulnerable consumers. They look for people who are not adept in financial matters and lack the financial sophistication to scrutinize loans. Nearly every federal financial services regulatory agency has publicly denounced predatory lending and called for more effective regulation to address it. States are implementing a number of initiatives to identify and eliminate predatory financial practices within their borders.

I will file a bill that allows Texas consumers to enter into financial relationships with certain basic protections. The State must further regulate the actions of unscrupulous lenders by requiring that they do business in a fair and open manner. This legislation will require clear disclosure of loan terms and prohibit misleading representations by lenders; and will outlaw the most egregious lending practices.

Military Support

Defense Economic Adjustment Assistance Grant (DEAAG)

The Department of Defense has asserted that there could be as much as a 25 percent reduction in U.S. installations and missions in order to transform the military to an effective force. If this assertion is applied to Texas' defense community, the State could see as many as four installations or missions closed or reduced. After the 1995 BRAC round, where Texas saw two major installations closed and five other facilities closed, the 75th Legislature appropriated \$20 million to the DEAAG Program to be distributed to communities struggling to recover from the economic hardship of the loss. In subsequent years the 76th and 77th Legislatures each appropriated \$1 million with which to assist communities.

I will file a bill and submit a Finance Rider that requests \$30 million for defense communities to use to prepare for BRAC 2005 and to use in the wake of BRAC 2005 to cope with the impact on the community infrastructure and economy.

I appreciate your support on these critical concepts and look forward to working with you to help Texas become a stronger, more vibrant place to live and work.

Very truly yours,

Eliot Shapleigh

ES/av

Enclosure: S.B. 70
S.B. 169



The Senate of the State of Texas

COMMITTEES:

Health and Human Services
Nominations
Transportation and Homeland Security
Veterans Affairs & Military
Installations - Vice Chair
Subcommittee on Base Realignment
and Closure - Chair
Sunset Advisory Commission

Senator Eliot Shapleigh
District 29

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

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

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

February 14, 2005

The Honorable David Dewhurst
Lieutenant Governor of Texas
Capitol Building, Room 2E.13
Austin, Texas 78711

VIA HAND DELIVERY

Dear Governor Dewhurst:

Today I filed S.B. 498, relating to the development of a financial literacy program for consumers. I have been working on the issue of access to capital for several years, beginning when I chaired the Business and Commerce Subcommittee on Lending Practices and have learned, through research and through numerous conversations and meetings with experts and affected constituents, that the first step to increasing access to capital is to teach Texans how to best manage their personal finances. To this end, I have filed a bill that develops a financial literacy program. Senate Bill 498 directs the Office of Consumer Credit Commissioner, the State Securities Board, and the Texas Education Agency to collaborate to develop a financial literacy education program for adults and children. Today, I ask that you refer this important bill to the Education Committee.

While the bill directs the creation of a financial literacy curriculum for both adults and children, the focus of the legislation is on the development of a curriculum for Texas' students, both public school students and students attending institutions of higher education. Moreover, the bill encourages each local public school district to incorporate the financial literacy education program into its regular curriculum for all grade levels. If passed, S.B. 498 lays the foundation for making personal financial literacy an integrated component of the education of Texas' young people; thus, it is important that this legislation is considered in context with other bills addressing the needs of our students and our schools.



Governor Dewhurst
February 14, 2005
Page 2

Thank you for your support and I look forward to working with you to ensure that the generations of tomorrow are fully prepared to become vibrant contributors to Texas' economy.

Very truly yours,

Eliot Shapleigh

ES/ks
enclosure: SB 498

X:\SHAPLEIG\Shapleigh2\2004-05 Correspondence\Texas Legislature\Lt. Gov\Dewhurst\Dewhurstd financial lit bill to education.doc



The Senate of the State of Texas

COMMITTEES:

Health and Human Services
Nominations
Transportation and Homeland Security
Veterans Affairs & Military
Installations - Vice Chair
 Subcommittee on Base Realignment
 and Closure - Chair
Sunset Advisory Commission

Senator Eliot Shapleigh
District 29

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

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

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

February 21, 2005

The Honorable David Dewhurst
Lieutenant Governor of Texas
Capitol Building, Room 2E.13
Austin, Texas 78711

VIA HAND DELIVERY

Dear Governor Dewhurst:

Today I filed three bills that address an issue of great concern for Texans - predatory lending. Senate Bills 617 and 618 provide protections to Texans entering into home lending contracts; and SB 625 addresses the need to provide greater enforcement for lenders violating consumer loan protections. Predatory lending, both in the home lending arena and the consumer lending arena, represents a systemic epidemic that affects not just consumer borrowing, but also affects local economies, regional resources and the statewide economic environment. Moreover, predatory lending is found in mortgage lending, consumer lending, the refinance loan and credit repair markets, and in business lending. Because predatory lending affects so many communities and so many different aspects of the economic environment, I ask that you refer these bills to the State Affairs committee.

I have been working on the issue of access to capital and predatory lending for several years, beginning when I chaired the Business and Commerce Subcommittee on Lending Practices and have learned, through research and through numerous conversations and meetings with experts and affected constituents, that the effects of abusive lending practices have the potential to greatly hinder economic growth across the state, particularly in communities that are already economically vulnerable. It is important that these bills that address such a deep cutting and broad issue, are considered in context with other issues that affect the overall stability and growth of Texas.



Governor Dewhurst
February 21, 2005
Page 2

Please refer Senate Bills 617, 618 and 625 to the Senate State Affairs Committee for consideration. Thank you and I look forward to working with you to combat the negative affects of abusive lending practices.

Very truly yours,

A handwritten signature in black ink that reads "Eliot Shapleigh". The script is cursive and fluid, with the first name "Eliot" and last name "Shapleigh" clearly distinguishable.

Eliot Shapleigh

ES/ks

enclosure: Senate Bills 617, 618, 625

X:\SHAPLEIG\Shapleigh2\2004-05 Correspondence\Texas Legislature\Lt. Gov\Dewhurst\Dewhurstd pred lending bills to state affairs.doc



The Senate of the State of Texas

COMMITTEES:

Health and Human Services
Nominations
Transportation and Homeland Security
Veterans Affairs & Military
Installations - Vice Chair
Subcommittee on Base Realignment
and Closure - Chair
Sunset Advisory Commission

Senator Eliot Shapleigh
District 29

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

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

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

February 22, 2005

The Honorable David Dewhurst
Lieutenant Governor of Texas
Capitol Building, Room 2E.13
Austin, Texas 78711

VIA HAND DELIVERY

Dear Governor Dewhurst:

On Monday, February 19, I filed a bill to enhance the state of Texas' ability to regulate payday lenders. S.B. 753 would establish a database to collect information on payday loans through a third-party vendor system. This system would collect data on the volume and total dollar amount of payday loans, the average loan amount, the average loan term, as well as the socioeconomic characteristics and behavior of borrowers.

Currently, there is no independent system for collecting these data, which means we have no reliable information on which to base our decisions related to regulation of the payday loan industry. Instead, we must rely on industry studies and research by consumer groups, which may be biased. Having accurate and reliable information on payday lending is critical to understanding the impact of payday lending on low-income Texans, as well as its broader effect on local economies, regional resources, and the statewide economic environment. It is also vital to our ability as lawmakers to establish effective protections for consumers. Because payday lending affects so many communities and so many different aspects of the economic environment, I ask that you refer this bill to the State Affairs committee.

I have been working on the issue of predatory lending for several years, beginning when I chaired the Business and Commerce Subcommittee on Lending Practices. I have learned through research and numerous conversations with experts and affected constituents, that abusive lending practices have the potential to greatly hinder economic growth across the state, particularly in communities that are already economically vulnerable. Because S.B. 753 addresses such a far-reaching and critically important issue, it should be considered with other legislation affecting the overall stability and growth of Texas.



Governor Dewhurst
February 20, 2007
Page 2

Please refer S.B. 753 to the Senate State Affairs Committee for consideration. Thank you and I look forward to working with you to combat the negative affects of abusive lending practices.

Very truly yours,

A handwritten signature in black ink, reading "Eliot Shapleigh". The signature is written in a cursive, flowing style.

Eliot Shapleigh

ES/eh
enclosure: S.B. 753

TLLt. Gov\Dewhurst\Dewhustd pred lending bills to state affairs.doc



The Senate of the State of Texas

COMMITTEES:

Health and Human Services
Nominations
Transportation and Homeland Security
Veterans Affairs & Military
Installations - Vice Chair
Subcommittee on Base Realignment
and Closure
Sunset Advisory Commission

The Honorable David Dewhurst
Lieutenant Governor of Texas
Capitol Building, Room 2E.13
Austin, Texas 78711

Senator Eliot Shapleigh

May 4, 2005
District 29

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

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

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

Dear Governor Dewhurst:

We the undersigned will vote no on the motion to suspend the regular order of business to take up and consider HB 846 by Flynn.

House Bill 846 amends the Finance Code to regulate lenders conducting deferred presentment transactions, or payday loans. However, the proposed legislation does little to actually protect vulnerable borrowers from the devastating effects of payday lending. In fact, the bill, if passed, actually hurts Texas' borrowers. Herein below is a chart that illustrates the potential interest rates that this bill will both allow and sanctify.

Interest Rates (APR) on a \$300 Payday Loan		
	Current Texas Law	Proposed CSHB 846
7-day loan	222%	780%
10-day loan	170%	548%
14-day loan	135%	390%

We are greatly concerned about putting into law a bill that will allow these usurious and predatory interest rates and ask that you not allow this bill to be considered on the Senate Floor, either through suspension of Senate Rules or through amendment.





The Senate of the State of Texas

COMMITTEES:

Health and Human Services
Nominations
Transportation and Homeland Security
Veterans Affairs & Military
Installations - Vice Chair
Subcommittee on Base Realignment
and Closure - Chair
Sunset Advisory Commission

Senator Eliot Shapleigh
District 29

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

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

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

February 26, 2007

The Honorable David Dewhurst
Lieutenant Governor of Texas
Capitol Building, Room 2E.13
Austin, Texas 78711

VIA HAND DELIVERY

Dear Governor Dewhurst:

As you know, I have been working on the issue of predatory lending for several years, beginning when I chaired the Business and Commerce Subcommittee on Lending Practices. I have learned through research and numerous conversations with experts and affected constituents, that abusive lending practices have the potential to greatly hinder economic growth across the state, particularly in communities that are already economically vulnerable.

Accordingly, I have filed the following bills to address these issues:

S.B. 753 would establish a database to collect information on payday loans through a third-party vendor system. This system would collect data on the volume and total dollar amount of payday loans, the average loan amount, the average loan term, as well as the socioeconomic characteristics and behavior of borrowers (**State Affairs**)

S.B. 855 would establish a 36% interest rate cap on military borrowers and dependents. This bill mirrors recent federal legislation ("Talent Amendment") that will become effective in October 2007; however, this bill would exempt banks and credit unions, while the federal law includes these depository institutions. The Department of Defense concluded that payday lending and other high-cost lending products are a threat to national security and destructive to troop morale while being actively deployed. Although federal legislation has been passed, this bill is necessary because it gives our state regulators a role, thereby increasing the likelihood of compliance (**Veteran Affairs and Military Installations**)

S.B. 856 and S.B. 857 would close the Credit Services Organization (CSO) loophole that pay day lenders are currently exploiting to avoid abiding by our state usury laws and S.B. 857 would place limits on CSO associations with lender to evade our state usury laws. Since July



2005, payday lenders have exploited this loophole to de-regulate their industry, and charge unlimited rates for payday loans. Since the switch to the CSO model, prevailing interest rates have increased by 25-40%. Texas CSO law is outdated, and needs to reflect current financial activity; moreover, the Legislature needs to draw the distinction between credit/debt repair companies and companies that extend or arrange short-term credit, such as payday lenders. Without closing the CSO loophole, any attempt to establish rules and regulations for this industry will be useless.

S.B. 857 further clarifies the intent of the CSO statute by prohibiting direct relationships between the CSO and the third-party lender in which the CSO stands to benefit from the lending transaction and also makes it clear that other "creative" attempts to evade the intent of the law are prohibited. In order to prevent further schemes from taking hold, this step is necessary **(State Affairs)**

S.B. 858 would help stem the flow of capital from communities that are drained through high-cost lending products. Georgia and North Carolina have taken similar steps, without adversely affecting access to other forms of credit that are not as usurious as the pay-day lending industry products **(State Affairs)**

Lastly, S.B. 879 provides for the regulation of tax refund anticipation loans or checks. Refund anticipation loans (RALs) are short-term, high cost loans secured and repaid by an individual's tax refund from the IRS. The annual percentage rate (APR) for RALs range from 70 to 700 percent due to the numerous fees associated with RALs. Tax preparers and RAL lenders rarely report this rate to consumers. Instead, they report a lower rate which does not account for the fees associated with the loan. Tax preparers offering RALs engage in aggressive advertising campaigns during tax season, and at times mislead consumers about the available options. Brokers rarely make it clear to consumers that they can receive their refund from the IRS in as little as 10 days without utilizing these high cost, high risk loans. In many cases, consumers are not aware that they have taken out a loan **(State Affairs)**

Along with the need for excellent public education and access to quality health care, access to capital is one of the most important issues in our great state. Particularly, in Hispanic Texas, we have a clear lack of access to capital. Because payday lending affects so many communities and so many different aspects of the economic environment, I ask that you refer these bills to the State Affairs committee.

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/eh

TL/DewhurstDPredatoryLendingbillspackge
TLLt. Gov\Dewhurst\Dewhustd pred lending bills to state affairs.doc



The Senate of the State of Texas

COMMITTEES:

Health and Human Services
Nominations
Transportation and Homeland Security
Veterans Affairs & Military
Installations - Vice Chair
Subcommittee on Base Realignment
and Closure - Chair
Sunset Advisory Commission

Senator Eliot Shapleigh
District 29

October 16, 2007

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

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

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

The Honorable Rick Perry
Governor
State of Texas
Texas Capitol, Room 2S.1
Austin, Texas 78711

VIA HAND DELIVERY AND UNITED STATES MAIL

Re: Protecting Texas Families - The Subprime Foreclosure Crisis in Texas

Dear Governor Perry:

As you know, our state and nation are experiencing a dramatic increase in foreclosures in the subprime mortgage market as countless families find themselves unable to meet their financial commitments. Given the high volume of subprime lending in Texas over the past few years, I have written to you, Lt. Governor David Dewhurst, and even former Chairman of the Federal Reserve Alan Greenspan on this important issue.¹ Nouriel Roubini, a professor at New York University and head of Roubini Global Economics, predicts a resulting recession in the near future. He contends that if the economy slips into recession, "then you have a systemic banking crisis like we haven't had since the 1930s. The cost could be as high as \$1 trillion."²

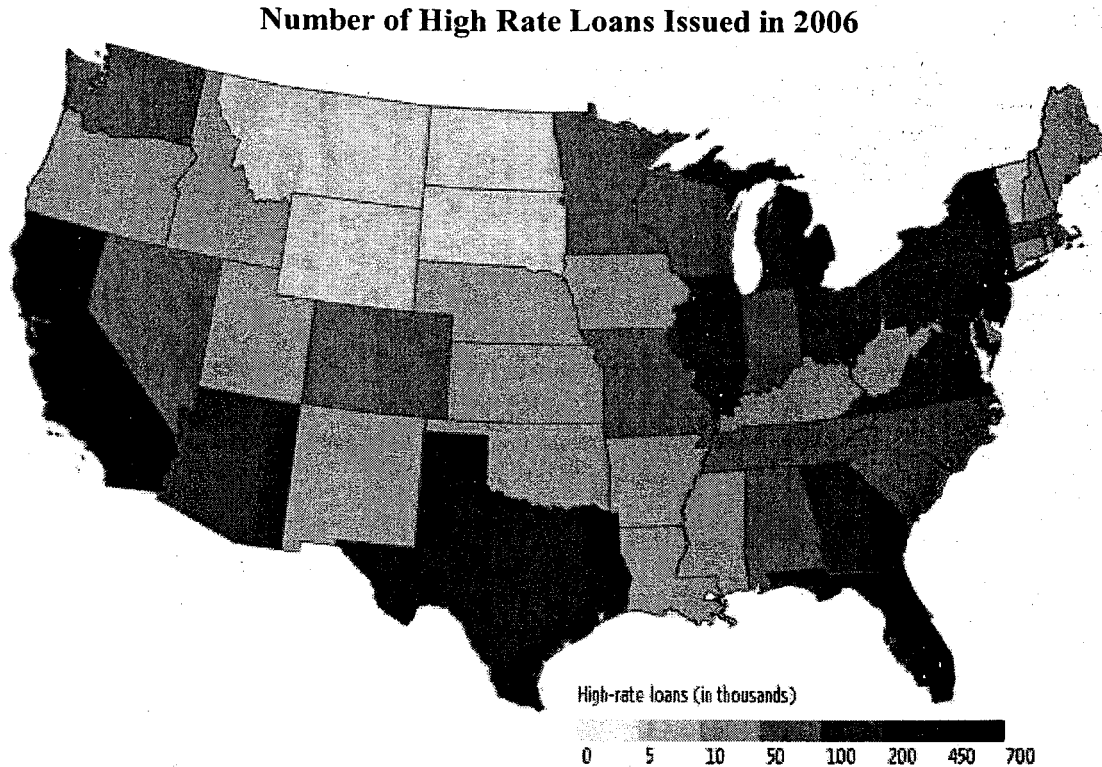
This spike in foreclosures has been associated with declines in stock markets worldwide, coordinated national bank interventions, and bankruptcy of several mortgage lenders. Below,

¹ See attached: letter from Senator Eliot Shapleigh to Alan Greenspan, Chairman of the Federal Reserve Board, February 3, 2003; letter from Senator Eliot Shapleigh to Officials of the Federal Bank and Thrift Agencies, March 25, 2003; letter from Senator Eliot Shapleigh to Lt. Governor David Dewhurst, October 1, 2003; letter from Senator Eliot Shapleigh to Lt. Governor David Dewhurst, December 17, 2003; letter from Senator Eliot Shapleigh to Lt. Governor David Dewhurst, October 25, 2004; letter from Senator Eliot Shapleigh to Attorney General Greg Abbott, December 1, 2004; letter from Senator Eliot Shapleigh to Lt. Governor David Dewhurst, January 26, 2005; letter from Senator Eliot Shapleigh to Lt. Governor David Dewhurst, February 7, 2005; letter from Senator Eliot Shapleigh to Governor Rick Perry, February 8, 2005; letter from Senator Eliot Shapleigh to Lt. Governor David Dewhurst, February 21, 2005; letter from Senator Eliot Shapleigh to Lt. Governor David Dewhurst, February 26, 2007.

² Emily Kaiser, "Subprime crisis could pack political punch," *Reuters*, March 15, 2007.



please find a national map showing the number of high rate loans issued in 2006, the driving force behind the current foreclosure crisis.



Source: Rick Brooks and Constance Mitchell Ford, "The United States of Subprime," *The Wall Street Journal*, October 11, 2007.

I am extremely concerned about the fiscal impact on Texas, particularly on the budget in the 81st Legislative Session. Thus, I am writing to urge that you act now to protect Texas families and the property tax base of our state as we face what may well be a Texas tsunami of mortgage foreclosures.

Specifically, I ask that you call a special session in early 2008 so that together with the Legislature, you can help us act to protect our state's homeowners, communities, and school districts which may soon find themselves in tight times financially. I ask that you frame the call around the following concepts:

- Working with mortgage lenders and servicers to maximize alternatives to foreclosure so that more homeowners can keep their homes. Inevitably, some discretion for mortgage lenders and servicers is built into the decision of whether to foreclose, and lenders and servicers must maximize this discretion to allow homeowners to seek out all potential means of avoiding foreclosure and the loss of their home;
- Providing increased funding for non-profit housing counselors and the expansion of educational efforts to make borrowers aware of options to work out delinquencies, with funds distributed based on areas of greatest need. Counseling and other educational

services will help prevent foreclosure, in addition to building budgeting skills and connecting Texans with community resources; and

- Requiring counseling before closing on certain subprime and high risk mortgage loans. Texas must empower future homeowners with tools and knowledge to make the most informed decision regarding their home loan.

In the absence of a special session, any legislative change will be delayed until the next regular session in January 2009. In that case, I ask that you convene a Governor's work group to develop a statewide response to the foreclosure crisis and subsequent legislative recommendations. Ohio, which has one of the highest foreclosure rates in the country, recently released the final report from the Ohio Foreclosure Prevention Task Force. Created in March 2007 by Governor Ted Strickland, the Task Force's mission was to provide a unified response to improve prevention methods and manage foreclosure issues in Ohio. The Task Force's report was issued on September 10, and its recommendations will help the state focus on the escalating crisis.³

If Texas' leaders do not act, I fear that our state could be faced with a deficit similar to or worse than that in 2003. As you know, there are concerns that the new margins tax will not bring in sufficient revenue. Those fears are now compounded with the new threat that exists due to the exceedingly high number of foreclosures. Foreclosures impact many aspects of the economy, and our state's leaders need to take a hard look at these numbers. The current glut of foreclosures we are experiencing could cause Texas' property values to dive due to significant foreclosures. Obviously, if property values drop, school tax revenues drop, creating a demand for increased state revenue. Houston's experience in 1986 demonstrates how foreclosures and real estate values can dramatically affect property values and school tax revenues. This will have a significant impact on the state's bottom line when we return to Austin for the 81st Legislative Session.

As you know, Texas has some of the highest loan rates in the country. According to the Corporation for Enterprise Development, Texas ranked number 43 in the country in the percent of all mortgage loans that are subprime loans.⁴ Of the ten highest subprime MSAs in the U.S., Texas is home to seven:

MSA Ranking by Overall Percentage of Subprime Refinance Loans

Rank	MSA Name	Population	Conventional Refinance Loans	Percent Subprime
1	El Paso, TX	679,622	1,767	47.82
2	Corpus Christi, TX	380,783	1,061	46.84
3	Laredo, TX	193,117	342	45.32
4	Killeen-Temple, TX	312,952	683	44.80
5	Beaumont-Port Arthur, TX	385,090	1,160	44.48

³ The Task Force's final report is available online at: <http://www.com.state.oh.us/admn/pub/FinalReport.pdf>.

⁴ Corporation for Enterprise Development, "Assets and Opportunity Scorecard," available online at: <http://www.cfed.org/go/scorecard>.

6	Miami, FL	2,253,362	10,701	42.67
7	Columbus, GA-AL	274,624	1,799	42.63
8	San Antonio, TX	1,592,383	5,270	41.90
9	Memphis, TN-AR-MS	1,135,614	7,577	41.86
10	Galveston-Texas City, TX	250,158	944	41.63
11	Fayetteville, NC	302,963	1,814	41.23
12	Enid, OK	57,813	427	40.75
13	Jamestown, NY	139,750	737	40.71
14	Rocky Mount, NC	143,026	872	39.68
15	Buffalo-Niagara Falls, NY	1,170,111	5,218	39.36
16	Daytona Beach, FL	493,175	3,477	38.77
17	Danville, VA	110,156	802	38.53
18	McAllen-Edinburg-Mission, TX	569,463	1,345	37.62
19	Sumter, SC	104,646	734	37.33
20	Victoria, TX	84,088	220	37.27
21	Goldsboro, NC	113,329	681	37.00
22	Lakeland-Winter Haven, FL	483,924	3,234	36.92
23	Florence, SC	125,761	963	36.55
24	Pine Bluff, AR	84,278	364	36.54
25	New York, NY	9,312,235	23,104	36.50
26	Orlando, FL	1,644,561	10,275	36.18
27	Hickory-Morganton-Lenoir, NC	341,851	3,481	36.08
28	Charlotte-Gastonia-Rock Hill, NC-SC	1,499,293	14,789	36.07
29	Brownsville-Harlingen-San Benito, TX	335,227	795	35.97
30	Houston, TX	4,177,646	14,552	35.70

Source: Texas Low Income Housing Information Services, using data from the May 2002 *Risk or Race? Racial Disparities and the Subprime Refinance Market* report by the Center for Community Change.

The high number of subprime mortgage loans has finally caught up with Texas and, indeed, the entire country. In the McAllen metropolitan area, over 39 percent of the mortgage volume between 2004 and 2006 were high rate loans.⁵ The inevitable result of these numbers are higher foreclosures. In August 2007, Texas reported 16,970 foreclosure filings, the fourth highest total in the nation for the month.⁶ These figures represent a 36 percent increase over July 2007, and the state's foreclosure rate of one foreclosure filing for every 532 households was 9th highest among the states.⁷ On the following page, please find a chart of July 2007 foreclosures in Texas' five largest counties.

⁵ Rick Brooks and Constance Mitchell Ford, "The United States of Subprime," *The Wall Street Journal*, October 11, 2007.

⁶ RealtyTrac, "Texas Foreclosure Activity Up 36 Percent in August," Press Release, September 21, 2007.

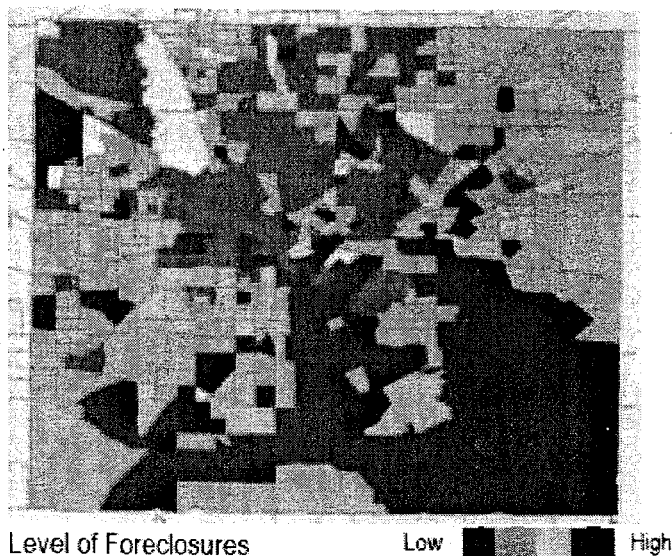
⁷ *Id.*

Texas Foreclosure Activity - August 2007

County	August 2007 Foreclosures	1 in every # households
Harris	3,176	459
Dallas	3,205	285
Tarrant	2,522	253
Bexar	1,318	435
Travis	678	577

Source: RealtyTrac U.S. Foreclosure Market Report

Here is what the 2005 to 2006 foreclosure activity looked like in Dallas County, the county with the highest number of foreclosures in August 2007:



Source: Texas Department of Housing and Community Affairs

Nationally, the numbers are alarming as well. In the most recent quarterly report issued by the Mortgage Bankers Association, this quarter's foreclosure starts rate is the highest in the 53-year history of the survey, with the previous high being last quarter's rate.⁸ According to RealtyTrac, foreclosure filings across the U.S. nearly doubled last month compared with September 2006, jumping from 112,210 to 223,538.⁹

The high rate mortgages that are causing the incredible jump in foreclosure rates are not just limited to minority, low-income borrowers. Indeed, a recent analysis by *The Wall Street Journal* shows that, in addition to low-income areas, high rate lending rose sharply in middle-class and wealthy communities.¹⁰ The problem is not over, either. As much as \$600 billion in

⁸ Mortgage Bankers Association, "Delinquencies Increase in Latest MBA National Delinquency Survey", Press Release, September 6, 2007.

⁹ RealtyTrac, "Foreclosure Activity Decreases 8 Percent in September," Press Release, October 11, 2007.

¹⁰ Rick Brooks and Constance Mitchell Ford, "The United States of Subprime," *The Wall Street Journal*, October 11, 2007.

The Honorable Rick Perry
October 16, 2007
Page 6

adjustable-rate subprime loans are due to adjust to higher rates by the end of 2008, thus putting more and more borrowers in precarious financial situations.¹¹

Again, I ask that you lead our great state to action and take immediate steps to help Texas prepare for and respond to the ongoing foreclosure crisis. I look forward to working with you on this important issue during the interim, special, and next legislative session.

Very truly yours,



Eliot Shapleigh

ES/de

Enclosure: Rick Brooks and Constance Mitchell Ford, "The United States of Subprime," *The Wall Street Journal*, October 11, 2007.
Senator Eliot Shapleigh, "Access to Capital and Credit," *Texas Borderlands Frontier of the Future*, February 2007.
Letters from Senator Eliot Shapleigh to Governor Rick Perry, Lt. Governor David Dewhurst, and Attorney General Greg Abbott regarding subprime lending.
Letters from Senator Eliot Shapleigh to Alan Greenspan, Chairman of the Board of Governors of the Federal Reserve, regarding subprime lending.
Selected articles from *The New York Times* regarding the foreclosure crisis.

cc: The Honorable David Dewhurst
The Honorable Leticia Van de Putte, Chair of Senate Democratic Caucus
The Honorable Tommy Williams, Chair of Senate Republican Caucus

State Government\Governor\Perry\PerryR Mortgage Crisis.doc

¹¹ *Id.*