



THEODORE R. KULONGOSKI
Governor

September 14, 2007

Cory Streisinger, Director
Department of Consumer & Business Services
350 Winter Street NE
PO Box 14480
Salem, OR 97309-0405

Re: Mortgage Lending

Dear Ms. Streisinger:

As you know, I am concerned about instability in the subprime mortgage lending market and how it impacts Oregon families. We have been fortunate in Oregon that rising home prices have meant lower foreclosure rates than many other states. But foreclosure rates are rising and may continue to grow as subprime borrowers with adjustable-rate mortgages see their interest rates increase and are unable to refinance. Also, the foreclosure rate does not capture families who are forced to sell their homes when the monthly payments increase beyond their ability to pay.

No Oregon family should have to go through the painful process of losing their home. We must make sure that everyone who has a home keeps their home. At the same time, we must make sure that everyone who wants can afford and wants to buy a home can do so, which takes a strong lending market.

I know that Department of Consumer & Business Services (DCBS) has taken a number of steps to address mortgage lending concerns over the past several months, in order to keep up with changing practices in the industry. Among other things, you have hired new examiners, begun examinations of out-of-state lenders, increased the standards and oversight requirements for loan originators, set new guidelines for nontraditional loans, and increased enforcement against mortgage lenders who do not comply with laws and regulations. These actions will go a long way to help Oregon homeowners.

Given the current state of the market, however, I believe there is more to be done. Some actions you will be able to take immediately through your agency; others may require legislation. Below are four principles that I would like you to use to guide your work, as well as specific actions I am asking you to take to address this problem.

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1. Oregonians facing foreclosure should be armed with the facts. Borrowers should know their rights. And if their loan payments increase beyond their expectations, I would like you to make counseling available to them so that they can rationally evaluate their options and work with their lenders to stay out foreclosure. It also may be appropriate to look at our foreclosure laws, to see whether additional disclosure to borrowers is appropriate.

2. No Oregonian should be tricked into a refinance loan that does more harm than good. Unfortunately, too often refinance offers look like they come from a government agency or a trusted lender the customer already knows. They promise reduced payments when in fact they will mean new fees without any benefit to the borrower. I know your agency has begun reviewing refinance advertising. I would like you to strengthen your rules governing these practices, and to increase enforcement against those who mislead borrowers, as well as exploring whether legislation is needed to ensure that refinancing benefits the borrower, not simply the lender.

3. No Oregonian should be victimized by fraudulent or unfair "mortgage rescue" schemes. As adjustable rates increase, bringing higher monthly payments, many Oregonians will be left holding loans that they may not be able to afford. We need to make sure that any refinance or buyout opportunities offered to them are legitimate and will help the borrower.

4. Mortgage loans should be designed for success, not for failure. To that end, just like traditional loans, non-traditional loans should be issued based on the borrower's ability to pay the actual interest rate, not a short-time low teaser rate. Prepayment penalties should be limited and not a trap for borrowers caught in an unaffordable loan. And borrowers should be offered the highest quality loan they can afford.

Oregon needs to maintain a strong and equitable mortgage lending industry. Home ownership is an important path for Oregon families to build financial stability and build for the future, and our communities depend on a strong housing market.

I am requesting that DCBS convene a work group that includes legislators and representatives from the lending industry and consumer organizations, to develop potential solutions in the areas where legislation may be needed. I look forward to hearing from you on your progress.

Sincerely,



THEODORE R. KULONGOSKI
Governor