



Federal Trade Commission

OPENING REMARKS OF CHAIRMAN DEBORAH PLATT MAJORAS

PUBLIC WORKSHOP: PROTECTING CONSUMERS IN THE NEW MORTGAGE MARKETPLACE

May 24, 2006 – 8:30am

Good morning, and welcome to the Federal Trade Commission's workshop on protecting consumers in the new mortgage marketplace. I want to thank all of you – and especially our distinguished panelists – for participating in this workshop about important consumer protection issues in the residential mortgage marketplace. At the FTC, when we have questions about how to protect consumers in new contexts, our strategy is to reach out and pull in some experts to assist in our understanding of new issues.

Home ownership is the American dream. And many Americans have achieved that dream; home ownership is at record levels. As we all know, however, housing prices have risen dramatically in recent years, especially in certain regional markets. For some, that means it is more challenging to achieve the dream of home ownership.

The marketplace has responded with nontraditional, or alternative, home mortgage products designed to make homes initially more “affordable” for consumer borrowers. A key feature of these alternative products is that they set mortgage payment amounts as low as

possible in the early years of the loan. The prevalence of these alternative mortgage products has grown rapidly. While in 2000 they made up less than one percent of the home mortgage market, by 2005 they accounted for up to 50% of all new home loans in certain markets.

What these new loan products have in common is that they offer flexibility to borrowers, and, for some, an entree into the housing market. At the same time, however, these new loan products may present unexpected risks for consumers. Some lenders may find it challenging to explain the differences among various loan products, which could affect consumers' ability to make informed decisions.

Our primary goal today is to gain a greater understanding of the benefits and risks of these nontraditional mortgage products, discuss how the law protects consumers, and learn what consumers understand about these products. The FTC has broad jurisdiction in this marketplace over non-bank mortgage lenders, brokers, and loan servicers. It is therefore important that we understand these alternative mortgage products so that we can assess the relevant consumer protection issues.

To guide us, we have five panels covering a broad array of consumer protection issues surrounding alternative mortgage products. Our panelists represent a wide cross-section of experts drawn from many parts of the mortgage industry, consumer advocacy groups, academia, and federal and state regulatory agencies.

Initially, our panelists will introduce the various alternative mortgage products and identify the major participants in the home mortgage industry. Next, panelists will explore the benefits and risks of these mortgages to lenders and consumers, and look at market factors, such as the potential impact of a “housing bubble” or changes in interest rates. Then, regulatory representatives will outline the legal framework in which these loans are made, and another panel will exchange views on how best to protect consumers and the marketplace.

We will close the day with a discussion on consumer literacy and education. I am a strong proponent of financial literacy among consumers – consumers must understand their own finances, including how their mortgages work and what mortgage products will work best for them. Members of this final panel will introduce extrinsic evidence about how well consumers understand their mortgage loan terms and consider creative ways to educate consumers.

Before concluding, I would like to thank in advance each of our moderators and the panelists for devoting their time and efforts to participating in this workshop. I am particularly pleased to have senior officials from the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation here today to lend their expertise and discuss the proposed guidance issued by the federal banking agencies, which addresses underwriting and consumer disclosure standards for certain nontraditional mortgage products offered by the lenders they regulate.

I also wish to acknowledge the staff of the FTC Bureau of Consumer Protection who

planned this workshop:

- * From the Division of Financial Practices – Associate Director Peggy Twohig, Assistant Director Reilly Dolan, and staff attorneys Julie Bush and Delores Thompson;
 - * From the Division of Consumer and Business Education – Erin Malick; and
 - * From the Bureau of Consumer Protection’s Honors Paralegal Program, Sarah Gleich; and
- * From the Bureau of Economics’ staff, economist Lynn Gottschalk.

I anticipate that this will be a thought-provoking and informative workshop. It should shed light on the issues associated with alternative mortgage loans at a critical time when many consumers now hold, or are considering to obtain, such loans, and thus, assist the FTC in its mission to protect consumers and the marketplace. Holding this workshop is one way for the FTC to gather information about emerging consumer protection issues in the residential mortgage marketplace.

It is now my pleasure to turn the podium over to Peggy Twohig, who will introduce the first panel.