



## NEW JERSEY GENERAL ASSEMBLY

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FINANCIAL INSTITUTIONS AND INSURANCE, *CHAIR*  
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### SENT VIA FACSIMILE AND REGULAR MAIL

April 11, 2007

Honorable Stuart Rabner, Esq.  
Attorney General  
New Jersey Office of the Attorney General  
P.O. Box 080  
Trenton, NJ 08625-0080

Dear Attorney General Rabner:

The nation's subprime mortgage loan market is experiencing a total and catastrophic meltdown that calls for your immediate attention.

This crisis transcends all social, economic, ethnic, and geographic borders in New Jersey. It makes no distinction between suburban, urban, and rural homeowners. And this meltdown, which is estimated to force more than 1.5 million U.S. homeowners into foreclosure this year alone, can be traced to several sources.

Many subprime lenders authorized too many loans to people who could not and cannot afford to continue making the monthly mortgage payments, as a majority of these subprime loans do not require a down payment or even verification of annual income.

These loans typically carry an artificially low interest rate during the first few years and then are either reset to a higher rate, begin principal repayments, or even come due in their entirety, which can increase monthly payments by as much as 30 percent.

Unscrupulous lending practices by brokers and lenders have added to the problem. There have been numerous occasions cited across the country where mortgage brokers or lenders have steered borrowers to subprime loans that were too risky, refusing or "forgetting" to disclose that they received a higher commission for issuing a subprime loan and refusing or "forgetting" to disclose that the interest rates could change.

Borrowers also share some responsibility concerning the subprime market problem by stating fraudulent incomes on subprime loans that required no verification or proof of said income, claiming owner-occupancy on investment properties to get a better initial rate, and colluding with sellers to inflate the value of homes.

This whole collapse is made even more precarious because the real value of homes have dropped as the real estate boom has slowed. Thus, you have homes where the mortgage owed is greater than the value of the property.

In 2006, subprime loans accounted for 20 percent of the mortgages issued nationwide and, under the current meltdown conditions, many New Jersey homeowners are on the verge of losing their homes to foreclosure.

No one wins when a home goes into foreclosure, and the current rate at which subprime loans are defaulting is only hastening the market's collapse. As New Jersey's attorney general, you have the authority to ensure that the effects of this meltdown do not slam, full-force, into the homeowners of this state.

I respectfully request that you and the attorneys in your office examine the means by which a moratorium on foreclosures involving suspect subprime lending companies – like New Century Financial Corporation, Accredited Home Lenders Holding Company, Fremont General Corporation, Countrywide Financial Corporation, and Wells Fargo – as well as any other subprime lenders that are going out of business or in jeopardy of going out of business could be issued.

There is a growing precedent for this type of proactive step:

- Last month industry regulators in New Jersey, Massachusetts, New York, and New Hampshire issued a cease and desist order against New Century, barring the now-bankrupt subprime lender from taking new loans in the state.
- Last month, Ohio's attorney general requested and received a temporary restraining order against New Century, barring the lender from soliciting consumers for broker services or mortgage loans, accepting loan applications and fees to process loans, initiating new foreclosures and pursuing pending ones, and evicting consumers.
- Last week, a coalition consisting of the National Association for the Advancement of Colored People, the National Council of La Raza, and the National Fair Housing Alliance urged lenders to adopt a six-month moratorium on foreclosures to provide time for legislators and industry professionals to devise a solution that would not result in mass evictions.

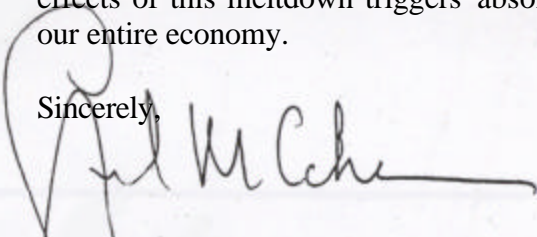
A moratorium of 180 days duration would give your office and the Legislature time to investigate the problem in a thorough manner and decide, without the pressure of mass foreclosures, what action should be taken to address problems in the subprime loan market and blunt its effects on New Jersey homeowners.

Should you deem such a moratorium to be unenforceable through your office, I also would ask that you provide counsel to Governor Corzine on the feasibility of issuing a moratorium via Executive Order.

The situation we currently are facing is an emergency, one that threatens to get worse. According to analysts, 2008 is on track to experience an even larger subprime meltdown, when four-year, interest-only mortgage payments convert to much higher monthly mortgage payments.

Without government intervention, we will, without a doubt, see a dramatic increase in the amount of New Jersey homeowners defaulting on their mortgages. We need to act before the effects of this meltdown triggers absolute chaos in the entire lending industry and undermines our entire economy.

Sincerely,

A handwritten signature in black ink, appearing to read "Neil M. Cohen". The signature is written in a cursive style with a long horizontal stroke at the end.

Neil M. Cohen  
New Jersey General Assemblyman, District 20  
Chairman, Assembly Financial Institutions and Insurance Committee

cc: DOBI  
Governor's Counsel