

SEPTEMBER 20, 2000

**SCHAKOWSKY, MALONEY AND OTHERS CALL ON HUD  
TO TAKE STEPS TO PROTECT CONSUMERS FROM PREDATORY LENDERS**

WASHINGTON, D.C. - U.S. Representatives Jan Schakowsky (D-IL) and Carolyn Maloney (D-NY) today called on Housing and Urban Development (HUD) Secretary Andrew Cuomo to take immediate action to protect consumers from predatory lenders. Nineteen other women members of Congress signed the letter.

In the letter, the members specifically called on the Secretary to:

- tighten regulations governing payments to mortgage brokers;
- penalize appraisal fraud in the FHA first time homebuyer program; and
- eliminate fraud in the Title 1 home improvement loan program.

Schakowsky is the author of the Anti-Predatory Lending Act, a bill that sets national standards and changes current law to protect consumers from predatory lending practices. In addition, Schakowsky, Maloney, and others have recently written to Chairman of the Federal Reserve Alan Greenspan urging him to use his authority to combat this problem.

Below is a copy of the letter

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*September 20, 2000*

*The Honorable Andrew M. Cuomo  
Secretary  
Department Of Housing and Urban Development  
451 7th St SW  
Washington, D.C. 20410-1047*

**RE: PREDATORY LENDING**

**Dear Mr. Secretary:**

***You have been a leader in the fight against predatory lending. With full appreciation of your past efforts, we urge you to take additional, immediate steps against this harmful practice.***

- ***Tighten regulations governing payments to mortgage brokers.***

***Lenders pay mortgage brokers additional compensation-yield spread premiums-where mortgage brokers provide significant additional services to borrowers. Of course, lenders pass the costs onto borrowers. Predatory mortgage brokers, however, charge exorbitant yield spread premiums just for talking borrowers into higher interest rates. In a settlement with Delta Funding, HUD, along with the Federal Trade Commission and the Department of Justice, required the lender to ensure that additional services were actually provided in exchange for yield spread premiums before paying the broker. The settlement also required the lender to disclose brokers fees directly to borrowers. HUD should promulgate these excellent rules for all mortgage lenders and brokers.***

- ***Penalize appraisal fraud in the FHA first time homebuyer program.***

***Testimony at the HUD/Treasury forums on predatory lending in Baltimore, New York and Chicago revealed a disturbing pattern of fraudulent activity in the FHA first time homebuyer program. Real estate brokers conspire with or coerce appraisers to hide defects in homes and sell them at grossly inflated prices. Many borrowers face foreclosures when they realize that they are paying inflated prices and have to make necessary but expensive repairs. To your credit, HUD is instituting a plan to identify and stop individual fraudulent sales. However, there is no penalty on fraudulent brokers for trying and they will continue to hurt those victims that your plan can't detect. Consequently, we urge you to also to penalize predators and remove them from the system.***

- ***Eliminate fraud in the Title 1 home improvement loan program.***

***Much of predatory lending occurs with home improvement loans. Contractors talk unsuspecting homeowners into home improvement loans, take payment, and then do shoddy or no work. HUD could take four simple steps, which would eliminate the fraudulent practices that currently exist in the Title 1 home improvement program. It should: 1) Refuse to approve lenders who do not accept responsibility for the misrepresentations or misconduct of the contractors with whom they do business; 2)***

***refuse to approve lenders or dealers who utilize arbitration clauses in their contracts which allow the lender to immediately foreclose on a disputed project but require the borrower to proceed by way of arbitration (which leaves the borrower without any meaningful recourse because contractors disappear); 3) require certification that the work has been completed satisfactorily by an independent entity, unaffiliated with any lender or contractor, and pay progress payments when the work is 33% finished, 66% finished, and totally completed; 4) require dealers to demonstrate financial solvency by posting reasonable performance bonds in an amount greater than the \$25,000 now required.***

***Again, we appreciate all of the hard work you have done against predatory lending. We believe that these are important steps to continue that effort. We look forward to continuing to work with you in this fight.***