FEDERAL BILLS FOCUS ON BROKERS, CREDIT SCORING AGENCIES October 21st, 2001

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BODY:
States and cities don't have a monopoly on efforts to clamp down legally on predatory lending.

Momentum is growing for federal action on the issue, but like Tennessee with its budget, Congress is dealing with its own crisis issue - terrorism - that may delay action on predatory lending legislation.

The Senate Banking Committee held hearings on the matter in July, but no legislation has emerged yet from the efforts. "Federal legislation is needed because some of those mortgage brokers (and lenders) are not covered by local or state legislation," said Nadeam Elshami, aide to U.S. Rep. Jan Schakowsky (D- Ill.), one of several congressmen who have introduced predatory lending bills on Capitol Hill.

Schakowsky's proposal, the Save Our Homes Act of 2001, is in the House Banking Committee, Elshami said.

The Home Ownership and Equity Protection Act (HOEPA), administered by the Federal Reserve, sets conditions for making "high-cost" loans.

But congressmen like Schakowksy believe the law needs to be brought up to date, for example, by lowering the trigger for HOEPA protections from an interest rate of 10 percent above the rate on Treasury bills to 5 percent above, Elshami said.

Rates on Treasury bills in Monday's auction were 2.2 percent for three-month bills and 2.16 percent for six-month securities.

Schakowsky's bill also would:

Extend coverage of the law from only home equity loans to home purchase loans.

Hold mortgage brokers as well as lenders liable for obeying the law.

Add a laundry list of predatory practices to what is prohibited.

Increase penalties to allow borrowers to recoup interest, fees and principal on loans determined to be predatory.

Broad expansion of HOEPA provisions could reduce the flow of credit to subprime borrowers nationally, said a study by Michael E. Staten, director of the Credit Research Center at Georgetown University, and Gregory Elliehausen, senior research scholar.

Rep. Harold Ford Jr. (D-Tenn.) of Memphis comes at the issue from another direction.

He has introduced a bill aimed at making changes in the way credit reporting agencies and creditors deal with credit scores. Those scores, based on information in people's credit reports, are what lenders say form the basis for credit decisions.

Ford said his bill would allow everyone to get a free credit report from the agencies without first having to be turned down for credit, as is now required. The bill also would require a fast, credible way for resolving disputes over information in credit reports and provide financial management courses to help people improve their credit standing, he said.

"The banks claim they base loans decisions and rates on credit scores," he said. "That's why I settled on the credit score approach. If the scores accurately reflect someone's credit risk rating, maybe we can eliminate some predatory lending."