Lenders exploit poor's few assets; Elderly, minorities often targets August 20, 2001, Monday

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BODY:
When the window salesman came to the Rev. Levi Williams' door, he brought a lot of smooth talk about the golden rule and personal redemption.

"This guy came in here, he talked to my wife, and he gave her a hug and a kiss and he buttered her up," said Williams, who lives with his wife on disability income that totals $13,500 annually. "I talked to him, too. And if you'd have heard him, you'd probably buy his stuff yourself."

The salesman talked Williams and his wife Rita into taking out a new mortgage on their house to finance $14,000 worth of windows. The windows turned out to be schlock, and the second mortgage -- based on a highly inflated appraisal of their house -- was well beyond the Williamses' ability to pay. At one point, Levi and Rita were within a few days of losing their home. They are far from alone. Deceived into bartering their homes or savings for the promise of debt consolidation, home improvement or just some spare cash, an increasing number of poor people are victims of predatory lenders.

Some predatory practices occur at all income levels. But the most devastating impact is on low-income people like the Williamses. Obtaining credit, which is often more expensive for poor people, is now increasingly fraught with peril. It makes the struggle to emerge from poverty even more difficult.

One advocacy group estimates that the national cost of predatory lending is $9.1 billion annually.

"It's a growing issue of justice and equal opportunity," said U.S. Sen. Debbie Stabenow, D-Lansing, one of several members of Congress seeking legislation to protect the poor and other consumers.

"Most people, especially many of the working poor, have the majority of the savings they've been able to accumulate in their lives in the equity of their homes.

"Predatory lending is what happens when people are talked out of those sums and into spending money in some way that is not in their best interests."

Precise measurements of the cost and extent of predatory lending are hard to ascertain. The Federal Reserve Board has issued a call for research to further quantify what it and other agencies, including the U.S. Department of Housing and Urban Development and Treasury

Department, describe as growing levels of predatory lending.

Analyzing so-called subprime loans across the country, the Coalition for Responsible Lending, which includes groups like the AARP and the NAACP, said that 2.7 million families are affected annually at a cost of about $9.1 billion.

Subprime loans are made at higher interest rates to people who are nominally less credit-worthy than so-called prime customers.

Observers say the vast majority of predatory lending, which is designed to take people's money, occurs in the subprime field, where many borrowers are the most desperate for credit and know the least about financial transactions. But not all subprime lending is pernicious.

According to HUD:

* The number of subprime refinancing loans increased by 1,000 percent, from less than 79,000 per year to more than 790,000 annually, from 1993 to 1998.

* During the same period, subprime loans increased from 3 percent to 26 percent of total loans in poor neighborhoods, from 1 percent to 11 percent in moderate-income neighborhoods and from 1 percent to 7 percent in upper-income neighborhoods.

* Subprime loans are 500 percent more likely in black neighborhoods than in white ones.

When the Williamses were sucked into a scheme two years ago, they had no idea how rampant and sophisticated predatory lending practices had become. What Levi Williams says bothers him as much anything was how the salesman "came on all religious."

"He said, 'I'm saved, filled with the Holy Spirit,' " Williams recalls. "He said, 'By gosh, I used to be on cocaine. I was nothing but plum drunk.' Said, 'God struck me down overnight.' "

Elderly, financially unsophisticated and concerned that their old house needed some improvements, the Williamses say they now realize they were easy prey.

Cared for by their children and by people in the neighborhood, including a local pastor and his wife, the Williamses subsist on about $1,100 in monthly Social Security payments.

Williams says that the house on Griggs Street came to be his at the hand of God. He could never have afforded it, otherwise.

"The woman who owned it had all kinds of offers from lots of different people around here," he said. "One day, she looked at me, and said, 'God means for me to give it to you.' I paid $8,000 for it. Everyone else offered a whole lot more."

Equity in home

By the time the window salesman showed up, the Williamses had a lot of equity in the home. They knew the house needed some repairs, but they figured they could not afford them.

When the salesman explained how it could all be done, it seemed to make sense, and the Williamses did not ask a lot of questions. They say they never knew what happened to them until the mortgage company called and said they were delinquent on a mortgage for $58,000.

"It was right then I realized we were going to lose this place," Williams said. He was lucky to find a lawyer, by word of mouth.

There are not many lawyers in Michigan like John Anding. Almost all of his practice involves helping to protect the poor and dispossessed; farmers who are persuaded to buy bogus products, homeowners who are targeted by predatory lenders, car buyers who encounter crooked dealers.

"The predatory mortgage lending practices are essentially efforts to load up mortgages for the poor, low-income folks, with unnecessary fees and charges and high interest rates, and to fund them with the equity that these people have built up in their homes," Anding said.

The mind-set of the victims leads to the victimization. Low-income people tend to be less sophisticated about financial affairs and their rights as consumers. And they tend to think that they will not be eligible for traditional bank loans when they sometimes are.

"I've seen some studies that have been done that suggest that 60 percent to 70 percent of the people who end up in subprime loans would qualify for better loans," Anding said.

"You have this lethal combination of sometimes considerable equity built up in their homes, merely by owning them for a long time, and the self-perception that they are part of the underbelly of society, they are low-income, poor credit risks."

Many ways to lose

Home improvement scams are but one example of predatory practices in the subprime lending field. Others include:

* Single premium credit insurance, which adds needless costs to interest payments.

* Prepayment penalties by which borrowers are penalized for paying back too early.

* Balloon payments that require borrowers to pay off a lump sum after several payments.

* Loan flipping. Often under extreme pressure by the lender, borrowers are required to continually refinance their loans at higher interest rate.

* Making a loan without regard to a buyer's ability to pay. Borrowers, often through a purposefully inflated appraisal of the value of their home, are left without the means to repay the

loan.

In the face of the increasing exploitation, especially of low-income people, regulators and politicians are responding slowly.

U.S. Sen. Paul S. Sarbanes, D-Maryland, now chairman of the Senate Banking, Housing and Urban Affairs Committee, and Rep. John LaFalce, the ranking Democrat on the House Banking and Financial Services Committee, offered a bill, the Predatory Lending Consumer Protection Act, early last year.

The legislation was designed to restrict abusive predatory lending practices, expand consumer protections and strengthen enforcement of existing laws, in part, by enhancing civil and statutory penalties.

The bill never reached the floor of either house.

Last month, Sarbanes sponsored hearings on predatory financial practices in the hope of garnering support for the reintroduction of his bill. Stabenow is lined up as a co-sponsor.

U.S. Rep. Jan Schakowsky, D-Ill., introduced a bill this month called the Save Our Homes Act, which would make the full list of predatory practices unlawful if interest rates reach certain trigger points, such as 5 points more than comparable Treasury bonds.

"In Cook County in 1993, we had 131 foreclosures due to predatory lending," Schakowsky said. "In 1998, there were 5,000. The bill is a response to the growing problem, an epidemic, really."

Stabenow and other members of Congress expressed confidence that they can make the legislation law. But the financial institutions industry is using its powerful lobbying forces to line up the opposition. Several observers believe that enacting meaningful regulations is unlikely.

The Federal Reserve Board has entered the fray, initiating a review of its policies on subprime loans. And the Federal Trade Commission has filed lawsuits against predators, in part, using the federal Truth in Lending Act.

But regulatory officials admit they are only beginning to get a handle on predatory lenders.

The best solutions for low-income people appear to be occurring on the local level.

The NAACP, Shorebank Corp. on Mack Avenue on Detroit's east side, and Detroit Alliance for Fair Banking have organized educational efforts to steer people away from predators.

Freddie Mac, the federally created home mortgage lender, has created a campaign called Don't Borrow Trouble, which has already been instituted in eight U.S. cities.

The program provides referrals to local agencies for education, credit counselors for advice and lawyers for legal action.

Stabenow announced last month that she has persuaded Freddie Mac to institute the program in Detroit later this year.

The Rev. Levi and Rita Williams got lucky. Once they found a willing lawyer, Anding filed suit and essentially put the lender, CommonPoint Mortgage, out of business. The salesman worked with CommonPoint, as did the window installer. A company that helped provide financing for CommonPoint's loans agreed to forgive the mortgage.

The Williamses remain in the house.

"I know three or four people in the neighborhood who lost their house because of the same fellow," Levi Williams said.

"Well, this'll show you what happens when you play with God's children," he said. "That guy who did the appraisal, he fell dead of a heart attack. CommonPoint mortgage went out of business. And the guy who put in the windows? He can't be found on a map."