Remarks by
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The National Association of Affordable Housing Lenders is known for its longstanding commitment to community development and affordable housing. Each of you here today has successfully pioneered ways to promote affordable housing and to provide fair and open access to credit. The FDIC applauds your success - and I personally commend you for the outstanding job that you do.
This week is National Consumer Protection Week, so it should come as no surprise that I am here today to seek your assistance, again, in protecting the consumer, and, in particular, protecting the consumer from an increasing risk, the recent rise in predatory lending practices. First, I will talk about what predatory lending is, and how it can harm, not only individuals, but financial institutions and communities as well. Second, I will discuss how we - in consultation with state non-member banks, consumers, and other regulators - plan to ensure that banks and thrifts do not unwittingly lend support to the predatory lending practices of nonbank lenders. And, third, I will explain what we at the FDIC will do - in cooperation with federal and state regulators - to combat predatory lending.

Predatory lending is intended to achieve abnormally high returns by taking advantage of consumers. The term typically is used to describe a combination of unfair or abusive loan terms, unscrupulous and misleading marketing, and high pressure lending tactics that limit information or choices available to a consumer. Predatory practices are anathema to responsible lenders, but they are occurring every day, especially in poorer neighborhoods, particularly those that are the home of a disproportionate number of elderly or minority homeowners. The abusive practices that predatory lenders use include:

- Fraudulent, high-pressure, and misleading marketing and sales efforts;
- excessive fees and exorbitant interest rates that are well beyond the levels appropriate or necessary to cover risk and a profitable return;
- the "packing on," and financing, of those excessive origination fees as well as fees for excessively priced -- or unnecessary -- products;
- prepayment penalties that trap borrowers in an unfavorable or unaffordable loan;
- balloon payments that conceal the true cost of the financing and may prompt foreclosure;

- "loan flipping," or overly frequent refinancing, with fees folded into the loan again and again, sometimes masked by lower monthly payments;
- the "stripping" of equity out of the home through frequent refinancing of loans or through artificially reducing monthly payments through negative amortization; and
- abusive collection practices, including the aggressive capture of equity.

Predatory lending takes many forms and reaches many markets. Abusive practices occur in the mortgage, home equity, credit card, auto lending, and payday lending markets. It is especially unfortunate, however, that home loans, which are keenly important to consumers, have offered unscrupulous lenders numerous opportunities to carry out abusive and predatory practices.

The plight of one 68-year-old woman in Atlanta, Georgia, who has owned her home for 29 years, is an almost "textbook" example of predatory lending. Retired, she lives alone on Social Security. Over a period of six years, she received six mortgage loans - her initial loan was then refinanced five times. The first loan was for $20,300. The last loan was for $34,800. The first four loans were made by a national finance company. A major bank subsequently purchased the company. The company -- now a subsidiary of the bank -- then made two additional loans to her.

The woman was not able to afford the monthly payments. So approximately once a year, the lender would refinance the loan. In each of the six loans, the lender sold credit life insurance to her. Single-payment premiums ranged from $2,300 in one transaction to $2,900 in another transaction. She also was required to pay closing costs of more than $2,500 for each loan. The single payment of the premium and the closing costs associated with each loan were of little use to the borrower, but were a great financial benefit to the lender.

As the woman had difficulty making her payments, the lender reportedly subjected her to a campaign of abusive debt collection tactics. Minutes after the regional collection office would call her demanding payment, threatening foreclosure, the local branch office would repeat the process. Ultimately, she was forced to seek assistance from the local legal aide society in an effort to keep her home.

Indeed, many who fall prey to predatory lenders risk losing their homes in the process. Predatory lenders define default aggressively. Rather than working with a borrower who falls behind on a payment, which is the usual banking industry practice, a predatory lender often quickly deems a loan to be in default. As in the case above, loans are often repeatedly refinanced with excessive fees charged each time. Ultimately, abusive collection practices can follow, through repeated telephone calls to customers' homes and places of employment.

One such case occurred in a predominantly minority neighborhood in Boston. A woman living in the Dorchester neighborhood of Boston refinanced her mortgage to pay for home improvements. On a mortgage of $134,700, she was charged $13,000 in origination fees and $4,000 in broker fees. She fell behind in her payments and the company promptly initiated foreclosure proceedings. Fortunately for her, the state's attorney general intervened on her behalf. He alleged that the bank had violated a Massachusetts consumer protection statute, and he successfully filed an injunction against the mortgage company to stop the foreclosure. In a subsequent court action, the lender was ordered to pay $500,000 in restitution and the woman kept her home.

Many victims of predatory lenders, though, are not so fortunate. A recent Chicago area study found that foreclosures on properties with high-cost loans grew by more than 500 percent from 1993 to 1998.

And just two weeks ago, residents of rural Fayette County, West Virginia, awoke to a news account of a neighbor's plight in the Sunday newspaper. The widow of a coal miner, with a seventh-grade education and in poor health, was the victim of a predatory lender.

She and her deceased husband owned their home in a small town in this county. She borrowed money from a home-loan company that promised her easy cash and low monthly payments. A series of eight loans ended up costing her $434 per month in payments. At the time, her income was $448 each month. In 1997, she lost her home. The loan company foreclosed. Now, she lives in an apartment in another town and is one of a growing number of West Virginians who have been targeted by home equity loan companies.

Large cities and small towns; different ages and races; three women targeted for abusive and predatory practices.

Predatory lending is not new -- it has always existed. Historically, however, most banks and thrifts haven't been involved. That remains the case today. Predatory lending is largely the province of nonbank finance companies that specialize in lending to individuals with flawed or no credit histories. And those companies have undergone tremendous growth over the past decade. According to one estimate, home purchase loans originated by these lenders increased by 760 percent from 1993 to 1998.

To the extent that banks and thrifts focus more attention on higher income customers to cross sell account and investment products, mortgage and finance companies will continue to step in to fill the void in lower income communities. And the recent increases in homeownership in lower income and minority communities may lure predatory lenders.

Predatory lenders have become quite adept in targeting those markets. They use computer-based data mining techniques to target homeowners that may be experiencing financial difficulties - due, for example, to excessive consumer debt or unpaid health bills from recent medical problems. They encourage homeowners to tap their home equity -- with the promise of getting out of their troubles or to pay for repairs to their homes.

When practiced aggressively in a lower income neighborhood, the overall effect of these practices -- an increase in vacant housing -- can be devastating to the property values and well being of other residents. This, in turn, undermines the legitimate investment made by community-based banks and thrifts and other affordable housing lenders -- like you -- in these neighborhoods. It undermines the financial well being of financial institutions and residents alike.

The FDIC is concerned because predatory lending can harm consumers and damage communities. We are particularly concerned that these practices have a disproportionately adverse effect on those who may lack access to other sources of credit, financial expertise, or financial counseling. Regrettably, under-served low -and moderate-income, minority, or elderly borrowers often fall into one of these categories. The benefits that have arisen from banks' and thrifts' enormous investments in community development lending and other activities promoted by the Community Reinvestment Act are in danger of being eroded by finance companies engaged in predatory lending.

While the problem does not involve most banks and thrifts, it reflects badly on the industry. While banks and thrifts may not engage in direct predatory lending, you may participate in it unknowingly through loan purchases from, and credit lines provided to, predatory lenders - or by providing other banking services to them.

Unless the trends I mentioned change, there is a very real risk that predatory lending will continue to rise. The FDIC will address this risk. I seek your assistance to do so in three distinct ways:

First, I have directed FDIC staff to begin working with FDIC-supervised institutions, community organizations, and our fellow federal and state banking agencies to develop guidance -- through a series of roundtable discussions -- for FDIC-supervised institutions and examiners:

Guidance to ensure that those state non-member banks do not unwittingly purchase loans from a predatory lender . . .guidance on how to best screen out loans made through unethical originators . . .guidance that encourages lenders to provide good quality loan products and other banking services that meet the needs of elderly, minority, and lower-income customers. We will also, in cooperation with all concerned, review our CRA examination practices to ensure that a bank's purchase of loans containing predatory terms from low- and moderate-income areas does not serve to improve the bank's CRA rating.

I believe that it is possible to develop a code of "best practices" that will help banks to guard against predatory practices. To all of you here today, I welcome your support, ideas, and participation in this effort.

Second, I plan to hold several public forums across the country where community organizations, government officials and members of the financial community can meet together and create solutions to the problem of predatory lending. As a group, we will explore the steps that the government can undertake to protect consumers.

While we know a good deal about predatory lending, there is more to learn. And there is certainly more we need to learn about how best to reach out to the people most frequently targeted by predatory lenders - low- and moderate-income households, the elderly and underserved communities in urban and rural areas.

We will announce the first of these forums shortly. Just as we will soon announce the details of several other financial literacy projects we have in the works - projects that will give people the tools to weigh whether deals that they are offered are too good to be true.

We invite your active participation.

Finally, I will reach out to my fellow regulators, city government officials, and state attorneys generals. In doing so, I will step up the FDIC's cooperative efforts with other public officials, including those who have recently adopted or proposed safeguards to address predatory practices.
To this end, while the FDIC has no authority over finance companies, we will work more closely with the Federal Trade Commission, which does regulate those lenders. We will work with the FTC to assist in identifying predatory lenders and warn FDIC-supervised institutions against involvement with them and their deceptive practices.
Recently, the FDIC, the U.S. Treasury Department, and the Social Security Administration assisted the FTC in its investigation of a non-bank firm that issued credit cards serviced by a state non-member bank. This investigation resulted in a financial settlement by the firm, and other actions, to redress alleged deceptive practices. FDIC examiners will work with the FTC to learn more about the deceptive practices of predatory mortgage companies, loan brokers and automobile dealers.

Why?

Because I believe that predatory lending by any institution - bank or non-bank - affects the reputation and public perception of all lenders.
The most important asset of any bank is the public's trust in its integrity.
In closing, let me stress again that predatory lending practices should not be tolerated by any of us.

We should not allow predatory lenders to migrate into our system of insured financial institutions - and we should work with banks and thrifts to assure that they do not inadvertently support such practices.
I want to commend the banks and thrifts for all that they have done to meet community financial needs - to serve the unbanked - to encourage financial literacy in the communities you serve.

You have done so much, but there is so much more to do. Predatory lenders thrive on taking advantage of people who have little choice -- no alternative. I challenge you to help us counsel and inform them. I challenge you to offer them your services, to provide an alternative, a better way. I challenge you to observe National Consumer Protection Week - every week -- not just in words - but also in deeds -- by protecting the vulnerable from those lenders who would prey on them.

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