

# **SENATE BANKING COMMITTEE**

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## **Hearing on "Predatory Mortgage Lending: The Problem, Impact and Responses." First Hearing in a Series**

### **Prepared Testimony of Mr. Leroy Williams Private Citizen**

**10:00 a.m., Thursday, July 26, 2001 - Dirksen 538**

My name is Leroy Williams. I am 64 years old. I live at 5617 Larchwood Avenue, Philadelphia, Pennsylvania. My income is from Social Security, \$826 a month.

I bought my home in 1975 for \$10,000. I had a mortgage with payments of about \$150 a month. The payments included my taxes and insurance. I finished paying my mortgage in 1996, and I retired that year from my job as an assistant manager of a shoe store.

Between October 1998 and January 2000, I ended up with 3 different mortgages on my home. My taxes and insurance were not included in the payments on any of the three loans.

In 1998, I was having trouble paying my gas bill. I was behind in the payments and I did not want the city to dig up the gas line in front of my home and turn off the gas.

I saw an ad in the paper about loans to pay off your bills and I called. A man came out to my home and talked to me about getting a loan. He brought loan papers to my home for me to sign. The loan was with EquiCredit. The payments ended up being \$215 a month. The payments were higher than my gas bill had been and I still had a high gas bill every month in the winter.

My social security income when I got the EquiCredit loan was \$779 a month.

The date I signed the loan was October 2, 1998. The loan from EquiCredit was \$19,000. They gave me \$3,000 in cash that I did not ask for. I used the \$3,000 to pay the gas bill and other bills and to help my sister. Her husband had just died and I used some of the money to go to the funeral in North Carolina and to help pay some of the expenses and to help my sister in general. I don't remember where the rest of the loan money went, just that they told me that the loan had to pay all my bills.

As far as I remember, I was making the EquiCredit payments okay. I don't remember just how I got into the next loan, with New Jersey Mortgage. There was a broker named Joe, but I don't remember his last name or what company he worked for. I threw out the papers from that loan because I was so mad about it. I had to take a bus outside the city to go sign for the loan. The date I signed for the loan was October 6, 1999, about one year after the EquiCredit loan.

The loan from New Jersey Mortgage was \$26,160. I don't remember what all the loan paid for, but I think I received \$400. The payments ended up being \$320 a month. I didn't want payments that high, so I cancelled the loan. But they called me and told me I had to make payments or I was in jeopardy of losing my home. I kept telling them that I cancelled the loan.

Right after I signed the loan from New Jersey Mortgage, I got a card in the mail from someone named Keeler. The card said I could get a better deal on my mortgage. I called Keeler. He told me not to send payments to New Jersey Mortgage and he would get me a better deal. Then it took a long time for him to set up a loan, and I kept getting calls from New Jersey Mortgage all that time.

Keeler drove me to an office in New Jersey to sign for the loan. He would not come into the office with me. He told me he had to go get gas. The loan Keeler set up was from Option One. The date was January 3, 2000. The loan was \$32,435. The payments are \$315, but I now know that the payments can go up to \$348 or higher after three years because the interest rate will change.

I signed for the Option One loan because I thought I was going to lose my home if I did not, even though I told Mr. Keeler that I needed payments around \$240 a month. I tried to make the payments at first, but I had too many bills to pay and it was so hard. And it was making me more and more angry, so I stopped making the payments.

I know now that Option One paid New Jersey Mortgage around \$2,300 more than the amount of the New Jersey Mortgage loan -- because of interest and a penalty of 5% of the loan if I paid it off early. I have also learned that the New Jersey Mortgage loan had a balloon payment. I understand now that means that I could have paid \$320 every month for 15 years and still owe most of the loan.

When you are a certain age and you've lived in a place for 20 years you just want to dwell there until your time comes but I don't have any peace because of all this.

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### **Supplemental Information from Witness' Attorney**

The interest (note) rates on Mr. Williams' loans were as follows: EquiCredit, 9.65%. New Jersey Mortgage, 14.5%. Option One, 11.25%. We do not know the APRs for the loans from EquiCredit and New Jersey Mortgage, but the APR for the Option One loan is 13.136%.

We do not know if the loans from EquiCredit or New Jersey Mortgage were HOEPA loans. Based on the TILA disclosures for the Option One loan, the fees and other pre-paid finance charges totaled 7.469% of the amount financed, just barely under the HOEPA fee trigger of 8.0%.

The transaction costs in the third loan (including pre-paid finance charges and fees that are not included in the finance charge) total approximately \$2,700, or 8.3% of the principal balance of the loan. Although we do not have all the loan documents from the first two loans, if the transaction costs of the first and second loans were similar to the costs of the third loan, Mr. Williams paid approximately \$8,700 to lenders, brokers and title companies (including the prepayment penalty and interest paid on the second loan when the third lender refinanced it barely three months after origination) in connection with the three loans, representing nearly 27% of the \$32,435 principal balance of the most recent loan.

Mr. Williams' story is typical of low-income home owners with sub-prime loans in several respects. First, once Mr. Williams had executed one high-cost loan, he became the victim of targeted marketing by other brokers and lenders of high-cost sub-prime loans. We find that brokers and lenders research public records to identify homeowners with mortgages originated by other sub-prime lenders and target such homeowners, attempting to sell new loans within a relatively short period of time. Like many low-

income home owners with a succession of sub-prime, high-cost loans, Mr. Williams was sought out by the lenders rather than seeking them.

Second, Mr. Williams was caught up in loans with complex terms he did not understand. Based on the loan documents, the second (New Jersey Mortgage) loan included a prepayment penalty and a balloon. Mr. Williams did not know about and did not understand either of these terms. The third (Option One) loan includes a prepayment penalty, a variable rate and an arbitration provision. Again, Mr. Williams did not know about and did not understand these terms, although there is some indication that the broker tried to explain the pre-payment penalty.

It is a fiction that the market -- or present statutes and regulations -- adequately protect homeowners when they are unsophisticated about consumer lending. Additional protections are needed to prevent what happened to Mr. Williams. A lower HOEPA fee trigger which included the pre-payment penalty might have discouraged the third senseless and in fact harmful refinancing. Substantive prohibitions against such blatantly inappropriate/no benefit refinancings would accomplish the same goal directly, as would imposing a duty on mortgage brokers and lenders to avoid making loans that are unsuitable, a duty already required of stockbrokers.

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Community Legal Services of Philadelphia, Inc.

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