

SENATE BANKING COMMITTEE

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

Prepared Testimony of Mr. Paul Satriano Private Citizen

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

Good morning. My name is Paul Satriano, and I'm a member of Minnesota ACORN. Last November I got a terrible home loan from Beneficial, which is a part of Household, and over the last few months have become very active in ACORN's national campaign against predatory lending so that I can help make sure that more people don't have the same problems that I do now.

For the last eight years, I've been an auditor, working with numbers every day; I'm now an accounts payable clerk for Holiday Inn, making \$11.75 an hour. Before that, I worked twelve years as a steelworker at NorthStar Steel in St. Paul, where I worked all along the line - loading, melting, and forming the steel - and as a crane operator. While I was there I was a member of the Steel Workers executive board and of our negotiating committee before back problems forced me to switch jobs. My wife, Mary Lee, works as a customer service representative for a delivery company, making \$12.16 an hour. We both work full-time, and one of our daughters and her kids, our grandchildren, live with us in the house.

Our house was built by my wife's dad in 1947; it's the house she grew up in. In the spring of '98, my wife and I took out a mortgage with Norwest Bank to buy out her sisters on the house, so we would own it ourselves. Interest rates were falling, so we refinanced to a lower rate in February '99 with Bank One. Then a few months later we took out a second mortgage with The Money Store to replace the house's original windows. Our monthly payments were \$791 on the first mortgage with Bank One and \$166 on the second mortgage, and we never had problems with those loans or were late on those payments.

A few years ago, we dealt with Beneficial for the first time when we refinanced our car loan. We lowered the payments by spreading them out. They were very friendly, and everything seemed fine with the loan. Then they started sending us letter after letter telling us how we could get up to \$35,000 in cash. We had some credit card bills totaling about \$7,000 - none of which we were behind on, but which we wanted to pay off - and so eventually we called them back.

We told the Beneficial representative that we wanted to pay off our credit card bills, and she convinced us that what we should do was consolidate our first and second mortgages with them.

Instead, we ended up with a loan that did not pay off most of our credit card bill, but that did cost us \$10,000 in fees, plus almost \$5,000 in credit insurance, and which had a higher total interest rate than we had before, and making a couple hundred dollars more in total monthly payments on our debt. We lost 15,000 dollars in equity in our home. And now we are locked into our new higher interest rate and higher payments - both because the loan has a five-year prepayment penalty for about \$6,000, and because we now owe more than our house is worth, and no one will refinance us.

A few hours before we were supposed to go in to sign the closing papers, Beneficial faxed us the first written information on the loan we ever received. The paper they sent said our house was worth \$106,000, and that that would be the maximum amount of the loan. It laid out what that 106,000 would pay - and none of it was points or fees to Beneficial.

When Mary Lee and I went in for the closing, they went through all the actual paperwork so fast it was like a barker in a circus. You put your money down to see the two-headed boy even though there isn't one. It was over in less than half an hour.

During the closing, the branch manager said they weren't able to pay off all our credit cards with this loan, but that they would try and add the unpaid amount to our car loan. The loan we got actually not only does not pay off the big credit card bill that was the reason we wanted the loan in the first place. It also does not pay off all of the bills listed on the sheet they faxed us.

When we got home we found a letter waiting for us saying that the change to our car loan to include the credit card debt had been denied. When we complained within the three-day rescission period, the manager made us think he could fix that for us. By the time he told us he couldn't, the three-day rescission period had already expired, and we were stuck in the loan.

At the closing, Beneficial made us feel like if we didn't get credit insurance we couldn't get the loan. So they added \$4,900 dollars to our loan amount for that. After talking with someone from ACORN earlier this year, I realized that we could demand a refund on the unused part of the premium. We did, and when we got the \$4,500 back we used it ourselves to pay off around \$4,500 of our \$7,000 in credit card debt. But of course, we'll be paying interest on that extra \$4,900 until we pay off our loan.

They didn't say anything about this at the closing, but Beneficial also charged us 7.4 percent of the loan amount as so-called discount points - that's close to \$8,900 on top of the usual third party fees - which were another \$1,100.

We only really started to realize this when we got our first statement. It wasn't till then that we understood that our loan amount was over \$119,000 dollars.

Also, the offer sheet Household sent us said our payments would be \$1,168 a month - which was already more than we were paying before. Actually, we pay them \$1,222 a month. We also have to pay \$49 monthly Plus another \$49 dollars a month on the bills the Beneficial offer sheet said would be paid off on our loan, but was not.

Despite those discount points and our history of not a single late mortgage payment, Beneficial charged us an interest rate of nearly 12%. Bank rates were below 8% at the time.

Later, we began looking around to see if we could get a better rate elsewhere. We called Beneficial to find out the pay-off amount. It was only then we learned that the loan included a five-year prepayment penalty for around \$6,000. They had never told us about any prepayment penalty. In fact, even without the prepay, I've learned that we are just stuck in this loan, because we owe more than the value of our house - so no one will make us a new one.

Our loan also contains a mandatory arbitration clause, which says we can't take Household to court.

After we sent in a complaint to the Minnesota Commerce Department, we got a call from Lisa Segara in the Household President's office. She said she would have a district manager call us about fixing any

problems with our loan. When the district manager never called, we called Lisa again and she gave us his direct number. We called him and he said everything was ok with our paperwork and that there was nothing he could do.

So we're left with a loan amount much higher than the value of our home, higher payments, more debt staked against our house, a higher interest rate than before, and they paid off only a fraction of our credit card debt, which was the original reason we refinanced. Plus a prepayment penalty. And Beneficial is protected from legal action by the mandatory arbitration clause.

My wife and I have faced some difficult times this year, and the financial stress caused by this loan really has made things worse. In January, one of my sisters died. My wife and I went in for a share of the funeral and then had to pay another \$500 to fix the car's breaks when they went out on the drive back from New Jersey. Then just recently my daughter-in-law died. Now Mary Lee and I are trying to help out our son with his three kids.

Even without a predatory loan, we'd be in a little bit of a tough spot financially with all of that, but we wouldn't be in as deep hole as we're in now. For the first time this month we weren't able to make our mortgage payment. I wrote Beneficial a letter telling them this, and now I'm expecting a late fee. When things are tight, as they are, it's pretty frightening to owe more money every month, without having gained anything from it, and pretty frightening to have more than \$250 dollars of what we owe every month staked against our home.

What's surprised me most in all this is that I'm not alone in getting a predatory loan. Since my story has been covered by the press in the Twin Cities, I've heard from a lot of people who've also been hurt by bad home loans - from Household and from other lenders. Everyone's story is slightly different, but patterns keep coming back - huge fees financed into loans, large prepayment penalties that lock borrowers in at high rates, monthly payments set at levels that lenders know borrowers can't afford, and many others. I've been working to try and educate more people in my area about what practices to look out for, but there are limits to how many people you reach.

A lot's been said about how the most vulnerable are especially targeted, and I think that's true. But I think I've got a decent understanding of finances - like I said, I deal with it every day at my job - yet I got taken by a predatory loan. The basic problem is that when you sit down at that closing table, the lender just knows more than you do. You expect more or less honest dealing, like you've had on past loans, or other things. And with predatory loans, that's just not what happens. That's why we're counting on our senators to support strong protections for borrowers against abusive loan terms. In the meantime, I'll keep helping lead ACORN's fight against predatory lending. Thank you.

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