

The American Banker, July 20, 2001

HEADLINE: Sarbanes Should Make Regulators Produce Anti-Predator Policies

BYLINE: BY JOHN GAMBOA and NATIVO LOPEZ

BODY:

Are any financial institutions "too big to fail"? No, according to the Federal Reserve.

Chairman Alan Greenspan, however, may have inadvertently produced an exception for Citigroup, a global bank with close to a trillion dollars in assets and record annual profits likely to exceed \$14 billion.

What the chairman has done is grant to Citigroup an unspoken regulatory exception for giant acquisitions. Its last major acquisitions were all approved or allowed without effective scrutiny, including three over the past nine months relating to predatory lending: Associates First, European American Bank, and Banamex.

In the Banamex case, for example, approval was granted within five working days after the public comment period closed. This despite 90 protests from over 1,000 community groups that had called for hearings and had protested continued predatory lending, credit card abuses, excessive wire transfer fees from the United States to Mexico and Citigroup's low Community Reinvestment Act rating.

Whatever the merits may be of perfunctory regulatory review of a global giant's major acquisitions, negative fallout is probable.

On July 26, the Senate Banking Committee will begin its first major examination of predatory lending practices, but it will do so while partially disarmed. Its most effective weapon, heightened and effective regulatory scrutiny, was stripped by Chairman Greenspan's laissez-faire attitude and apparent deference to Citigroup chief executive Sandy Weill (who some suggest may be as influential as the Fed chairman).

Virtually every bank is likely -- often for seemingly valid reasons -- to oppose any comprehensive legislative solution offered by concerned Banking Committee members or community groups. But this type of solution (one that the banks contend could stifle the democratization of credit and dry up subprime lending to those who need it the most) might not have been necessary if Chairman Greenspan had sent the right signals to financial institutions, much as he attempts to do with the lowering and raising of interest rates.

In Citigroup's purchase of Associates First, completed late last year, the Fed could have accepted preliminary jurisdiction relating to the nation's largest subprime lender, particularly if it had worked with the Federal Deposit Insurance Corp., whose chairman at the time, Donna Tanoue, had repeatedly urged jurisdiction.

As a result of the Fed's failure to act, Citigroup refused to make fundamental -- as opposed to cosmetic -- changes in its subprime lending practices. Had Citigroup swiftly

made fundamental changes, the marketplace would probably have followed, and the present hearings might have been unnecessary.

A second opportunity to send a market signal that might have muted the demand for hearings was blown on July 2 and July 9 when the Federal Reserve approved, without public hearings or fines, Citigroup's acquisitions of EAB and Banamex, respectively.

Because of the Federal Reserve's laissez-faire subprime market signals, the Senate Banking Committee could be presented with limited legislative options and may be compelled to develop a comprehensive legislative solution that the banks abhor and that the poor may regret.

The Banking Committee, under the skilled leadership of its new chairman, Paul Sarbanes, may have another option, however. It could give Chairman Greenspan and the other three banking regulators (all of whom may soon be Bush appointees) one year to develop effective anti-predatory-lending practices that are unlikely to have any adverse impact on the democratization of credit. These regulatory practices could include:

Scrutinizing all subprime lending during the course of any merger applications.

Holding automatic public hearings whenever a major financial institution engages in subprime lending or acquires a subprime lender if there are significant protests, such as the hundreds filed in the Associates First and Banamex cases.

Imposing multimillion dollar fines -- not slaps on the wrists -- for subprime violations.

Requiring CEOs to take personal responsibility for improper subprime practices and to sign, under penalty of perjury, quarterly reports to regulators on the status of their subprime lending.

Including a comprehensive analysis of subprime lending in all CRA exams.

Requiring every major financial institution to submit, under the signature of its CEO, its subprime lending practices as they effect the 50% of subprime borrowers who are or might easily be eligible for prime lending terms.

Requiring that the regulators individually (since they can rarely act together effectively, except through the development of the lowest-common-denominator practices) set forth "best practices," including examples by major financial institutions.

Given the Bush administration's apparently pro-underserved-community approach and that three of the regulators are likely to be Bush appointees by the end of the year, this tough free-market approach might be something Sen. Sarbanes and all members of the Banking Committee might well consider.

Should the regulators refuse to enthusiastically support this seven-point program, which could create a code of responsible subprime practices, our nation will be left with three options, the last two of which virtually every bank opposes: no action, local and state solutions, or comprehensive national legislation that could inadvertently effect the democratization of credit.

The American Banker, July 20, 2001

HEADLINE: Credit Score Disclosure Bill Revived

BYLINE: BY MICHELE HELLER

DATELINE: WASHINGTON

BODY:

A bipartisan duo of Senate Banking Committee members revived legislation Thursday that would require mortgage lenders and credit reporting agencies to provide customers with their credit scores and a summary of what the grades mean.

"Consumers need access to the same information lenders and credit reporting agencies use so that they can make wiser decisions that will improve their credit score," Sen. Charles Schumer, D-N.Y., said at a news conference where he and Sen. Wayne Allard, R-Colo., announced they are reintroducing the Consumer Credit Score Disclosure Act, which stalled last year.

The measure, backed by real estate agents and consumer advocates, would prohibit credit reporting agencies from banning mortgage lenders from disclosing credit scores. It also would require lenders to tell consumers how their score was calculated and what credit behavior could raise their grade.

The Mortgage Bankers Association has not taken a position on the Schumer-Allard bill, but its chief lobbyist, Howard Glaser, said Congress should "avoid placing additional costs on borrowers and lenders or making the process of obtaining a home loan more complex."

Citing Freddie Mac data, Sen. Schumer said roughly 379,000 subprime borrowers have credit scores that would make them eligible for less expensive prime rate loans, and that as a result, Americans overspend about \$100 million a year on their mortgages.

Fair, Isaac & Co.'s consumer affairs manager, Craig Watts, said the Schumer-Allard measure is not necessary because in March the credit-scoring firm reversed its policy that defined the scores as proprietary, and began selling consumers their own grades for \$12.95. A person's Fair, Isaac score is also available, to that person only, through the credit reporting agency Equifax Inc. Some online companies sell credit scores, but not the ones calculated by Fair, Isaac that are used by most lenders in making credit-granting decisions.

The impetus for Fair, Isaac's policy change was a California law that as of July 1 requires lenders to give customers a copy of the credit score obtained to solicit a loan or accept a loan application.

In the House, Rep. Harold Ford Jr., D-Tenn., introduced a bill in April that would require lenders to disclose the scores on a consumer's request, as well as provide free annual credit reports.

The American Banker, July 20, 2001

HEADLINE: In Brief: Atlanta Protest Against First Union

BYLINE: BY Robert Julavits

DATELINE: ATLANTA

BODY:

Georgia state Sen. Vincent D. Fort led a demonstration Thursday against First Union Bank Inc., charging that the bank holds hundreds of thousands of abusive loans and should not be allowed to acquire Wachovia Corp.

"We think that federal regulators should not approve the merger between First Union and Wachovia until First Union makes right the 500,000 predatory loans that they have" from the Money Store, said Sen. Fort, a Democrat, in an interview before the event.

Though he understands that First Union has closed the Money Store, he compared the bank's holding the loans of its former subprime subsidiary to a bank robber who has stopped robbing banks but keeps the ill-gotten gains.

The protest targeted First Union's office in Atlanta, and Sen. Fort said he expected up to 150 people to attend.

The legislator, who introduced a predatory-lending bill this year in the Georgia Senate, said he also has concerns about Wachovia. Though his bill passed, Sen. Fort said it was gutted.

"First Union and Wachovia should sit down at the table and begin talking about supporting reasonable legislation, similar to what I introduced that would stop predatory lending practices," he said.

Lenny Springs, senior vice president for First Union's community development group, said that the bank has made several offers to Sen. Fort to address any loans that he felt were abusive, and in fact have resolved four loans.

In addition, Mr. Springs said First Union has less than 1,000 loans from the Money Store outstanding in the metro-Atlanta area. He called the comparison to a bank robber "unjustified."

Further, he said that First Union and Wachovia officials have met with Sen. Fort on several occasions. "We are not predatory lenders," Mr. Springs said. "If in fact there's an opportunity to have some further discussions, we'll do that. But to protest us and then say let's talk, that's going to be difficult for us to do."

MARKET CALL 09:30 July 18, 2001 Wednesday

CNNFN

SHOW: MARKET CALL 09:30

July 18, 2001 Wednesday

Transcript # 071805cb.105

HEADLINE: Greenspan Testimony to House Financial Services Committee, Pt. 2, CNNfn

Selected Text:

S. JONES: And I don't mean that derogatorily in any way, you know.

Let me ask this question. We have high levels of household debt in the nation currently. Do you favor some form of debt relief for highly indebted consumers as these interest rates -- or interest rate ceilings or aggressive measures to curb predatory lending? All of these things come as a result of what I've set forth.

GREENSPAN: We, as you know, have been strongly supportive of actions to eliminate predatory lending. I personally find the individual process most distressing, and I think it's an aspect of our financial system which has not shown, I think, great status. I think it's a small issue, relatively speaking, but it should be eliminated.

S. JONES: It's a small issue. Let me stop you just for a moment.

GREENSPAN: No, I'm trying to say, when you look in terms of 8,000 banks and a lot of other institutions, it's a small issue in the sense that sub-prime lending is large part of the market. And sub-prime lending, I think, helps minorities. It's a very important part of our...

S. JONES: I disagree with you. But I only have probably two seconds, and I want to take you to just to one area.

You say it's a small area, but when you're dealing with most of the predatory lending occurs in minority and low-income communities that are already deeply in debt and it is the only place by which they get some type of ability to build wealth through homeownership, it's a big problem, not a small problem.

GREENSPAN: No, I agree with. I think it is a big problem for particular groups of individuals. And the reason why the issue has difficult moving forward is it's not a big

enough issue in the total financial system to get the type of support that you need to eradicate this particular practice.

S. JONES: But I could get you to help me eradicate this.

GREENSPAN: Well, I'm on your side on this one.

S. JONES: OK. I'm going to call on you. I thank you, Mr. Chairman, and yield back the balance of my time.

Scripps Howard News Service July 19, 2001, Thursday

HEADLINE: Many settle for really bad terms to get a house

SOURCE: Scripps Howard News Service

BYLINE: PAMELA REEVES

BODY:

Here's a recipe for unhappy homeownership:

- Get a mortgage with an interest rate of 10.5 percent or more.
- Find out the mortgage has a pre-payment penalty, meaning that if you refinance you'll have to pay a hefty fee.
- Have such a shaky financial situation that you're not sure how you'll make the mortgage payment for the rest of the year.

Unfortunately, that's an accurate picture of what happens to millions of Americans with bad credit who nevertheless manage to buy a house under onerous terms, a new survey by the big mortgage financier Fannie Mae found.

"This survey helps to explain the explosive growth in the sub-prime mortgage market, which often is the only source of mortgage credit for credit-impaired borrowers but at some of the highest rates in the market," said Fannie Mae Chairman Franklin Raines. "In many cases, consumers that can afford the least are paying the most to finance a home."

The survey found that 45 percent of homebuyers with bad credit had an interest rate higher than 10.5 percent and about half had gotten their mortgage through a telephone or mail solicitation where lenders of last resort often lurk.

These costly mortgages often came with a pre-payment penalty, putting the homebuyers in a box. Even if they cleaned up their finances and qualified for a lower interest rate eventually, they would have to pay a fee to get free of their high-rate loan.

Among borrowers who had been rejected at least once for a mortgage, the terms they finally got were usually dismally unattractive. Sixty-three percent of this group had an

interest rate exceeding 10.5 percent and nearly half also had a pre-payment penalty. Six out of 10 said they were worried about making their mortgage payments.

Why would anyone put themselves in such difficult circumstances to buy a house?

"The survey found that the desire to own a home is so intense - the benefits are so compelling - that many consumers are willing to go to extraordinary lengths to secure the financing," Raines said.

Raines said it's time for the mortgage industry to consider whether it can help more people clean up their credit problems so they can qualify for better loans and to see if some are being steered into high-cost loans when they could qualify for something better.

If you have made a mortgage payment 60 days late, declared bankruptcy or been through foreclosure in the past three years, or had a car repossessed, you're considered a high credit risk. Other factors that work against you are having a bill referred to a collection agency, having all your credit cards near their limits, getting paid in cash and having no credit cards.

Before responding to a lender of last resort, ask yourself how you might get in a better financial position and how long it would take. There's no point in buying a house if all it's going to bring is more financial grief.

The Fannie Mae survey, done by professional pollsters in May, also found:

- The percentage of renters saving to buy a house dropped from 20 percent last year to 16 percent this year. Yet 43 percent of renters said it is likely they will buy a house in the next three years.

- Eighty-three percent of those surveyed know that a mortgage settlement statement should not include junk fees - document preparation fee, underwriting analysis fee, tax escrow fee, escrow fund analysis fee - even though these fees can be legally added by the lender seeking to increase his profits at the buyer's expense.

- As Americans become more familiar with the Internet, they are less willing to use it for such a big financial step as getting a mortgage. The proportion that would probably or definitely not use the Internet to apply for a mortgage increased from 39 percent last year to 59 percent this year.

X...X...X

Mortgage interest rates plummeted this week (July 19), according to a survey by Freddie Mac. The national average for a 30-year fixed-rate mortgage fell to 7.08 percent from 7.21 percent last week. The average for a 15-year loan dropped to 6.65 percent from 6.76 percent and the one-year adjustable declined to 5.62 percent from 5.79 percent.

All these mortgages are widely available when you pay one point, a fee that is equal to 1 percent of your mortgage.

Capital Times (Madison, WI) July 19, 2001 Thursday, ALL Editions

HEADLINE: COMMENTATOR SUAREZ DECRIES PRICEY HOMES, SPRAWL

BYLINE: Samara Kalk The Capital Times

BODY:

The American home has become the American validation.

How much a person spends on a house determines his or her self-worth today, said a nationally known broadcast journalist visiting Madison Wednesday.

Class mobility and security are closely linked to the housing market, said longtime National Public Radio commentator Ray Suarez. He delivered the keynote address at the "A Home for Everyone" conference sponsored by the Wisconsin Collaborative for Affordable Housing at the Sheraton Madison Hotel.

"Hey, I just spent \$300,000 on a house," Suarez said mockingly. "You almost feel like you have to go out and buy a better suit after that."

Consumers are being pushed into buying cheap, poorly constructed homes that won't appreciate because of tight rental markets and a paucity of well-built, reasonably priced rental properties, he said. In many U.S. cities, it is less expensive to get a mortgage with 5 percent down than to pay rent. Homeownership then becomes the logical choice.

"It's not doing them a favor," said Suarez, author of "The Old Neighborhood: What We Lost in the Great Suburban Migration: 1966-1999."

To buy in, some new and often lower income homeowners are falling victim to sub-prime lending or "predatory lending," done by loan agencies that charge outrageously high rates of interest to customers with poor or no credit rating.

"More families are robbing Peter to pay Paul at the beginning of the month," he said.

Meanwhile, Americans "celebrate, extol and cheer" that homeownership has reached the highest rate in a century, said Suarez, now a Washington-based senior correspondent for PBS's "News Hour with Jim Lehrer."

"Why are we encouraging them to do it? Because of the dream of a doghouse, a swimming pool and a station wagon," he said.

Madison residents should feel lucky to live in a capital city with a major university and relatively low housing costs, he said.

"Don't roll your eyes," said Suarez, adding that the price of an average Madison home would buy a toolshed in D.C.

"Houses in my wacky neighborhood in Washington, D.C., have just doubled (in price) in the last 10 years," he said.

Madison's population grew more than 9 percent in the past 10 years, more than New York and Chicago, Suarez said. But suburban growth also is booming and has mushroomed since the end of World War II, he said, warning that the corridor between Madison and Milwaukee is starting to fill up.

Many local governing bodies are "laying down for almost anything," he said. The mayor and the council fear that if they don't approve a project nothing else will come, he said.

In Madison there are still choices, said Suarez, urging planners and architects to design homes and subdivisions that are not interchangeable with others across the country: garages in front, no sidewalks, no gathering places.

Suarez, who studied urban affairs at the University of Chicago, where he got a master's degree in the social sciences, despises suburban sprawl, with the same Barnes & Noble, Starbucks and Whole Foods stores in every new mall.

The rate of mall building in the country has become disorienting, he said.

"You don't know where you are anymore."

AP Online July 19, 2001; Thursday

HEADLINE: Survey: Borrowers Are Confident

BYLINE: MARCY GORDON

DATELINE: WASHINGTON

BODY:

The growth in homeownership has two faces: the smiling visage of confident borrowers with strong credit and the anxious look of families with credit problems paying higher rates for mortgages, according to a survey by mortgage giant Fannie Mae.

The rise of so-called subprime lending, enabling people with spotty credit histories to get home mortgages though at steeper rates, has helped boost U.S. homeownership to 67 percent. But the gains have come at a price, the survey released Thursday shows.

Borrowers with impaired credit often choose a mortgage lender believing they have few options, rather than choosing on the basis of the lender's reputation or because they believe the lender is offering them a good deal.

Less than half 43 percent of the borrowers with poor credit surveyed said their mortgage lender had a solid or one of the best reputations. Only 11 percent of those borrowers said their lender offered the best interest rate for which they qualified. That was three times less than the percentage of all borrowers who said so, according to Fannie Mae.

As a result, many poor-credit borrowers expressed overall dissatisfaction with the home mortgage process.

"Clearly, the housing finance system is working extremely well for millions of Americans. But as the survey found, not for every American," said Franklin Raines, Fannie Mae's chairman and chief executive officer. "The central question is whether all consumers are enjoying their basic right to the lowest-cost mortgage for which they can qualify. Answering this ... is critical if we are to close the homeownership gaps facing many groups in America."

Lawmakers and regulators have expressed concern that while subprime loans can open homeownership to people who otherwise couldn't get mortgages, some of the lending may have become abusive and involve excessive rates and fees.

On a brighter note, the company's latest annual housing survey also found an increase in the number of people who believe it's a very good time to buy a home: to 27 percent from 19 percent a year ago. The drop in interest rates apparently has prevailed over the recent spate of bad news about job layoffs, the battered stock market and anemic company earnings.

Among renters, 38 percent view the down payment and closing costs as a barrier to buying a home, down from 44 percent in last year's survey.

The survey polled 1,001 adults nationwide, plus a sample of 245 homeowners defined as having impaired credit, who were interviewed between May 8-11. The margins of error are plus or minus 3.1 percentage points overall and 5.7 percentage points for the credit-impaired borrowers.

Among other findings:

_ Nearly half the respondents with poor credit have mortgages exceeding 10.5 percent, compared with the average rate on a 30-year, fixed-rate mortgage of around 7 percent. Of that group, 81 percent said they were dissatisfied with their loan rate.

_ Among all credit-impaired borrowers, 58 percent said the lender not they controlled the mortgage process.

_ More than two-in-five borrowers with poor credit reported having mortgages with prepayment penalties. One-in-five said they had a balloon loan, a mortgage in which the entire unpaid balance becomes due after a period of five to 10 years.

_Forty-five percent of credit-impaired borrowers worry about making their mortgage payments and possibly losing their home, and wonder if they will ever own their home outright. By contrast, 77 percent of all homeowners said they look forward to that event.

_Fewer people said they are saving for a down payment: 16 percent compared with 20 percent in last year's survey, while 75 percent of respondents are aware of their credit rating.

Fannie Mae, which describes itself as the world's biggest financial services company that is not a bank, is a government-chartered corporation whose stock is publicly traded. Congress created the company to buy home loans from banks and other lenders to supply ready cash to the multi-billion-dollar home mortgage market.

Fannie Mae buys mortgages from lenders to keep in its portfolio and packages others into securities for sale on Wall Street. Boosted by continued strength in the housing market, it reported on Tuesday earnings of \$1.4 billion, or \$1.36 a share, in the April-June quarter, up from \$1.1 billion, or \$1.05 a share, a year earlier.