Press Release

JULY 16, 2001

SCHAKOWSKY ANNOUNCES "*SAVE OUR HOMES ACT ,*" INITIATIVE TO PROTECT HOMEOWNERS/BUYERS FROM PREDATORY LENDERS

CHICAGO, IL – U.S. Representative Jan Schakowsky (D-IL) today unveiled a comprehensive initiative that will protect homeowners and buyers from the growing predatory lending practices in the mortgage industry. At a news conference at the home of predatory lending victim Mary White, in the Chicago Lawn neighborhood, Schakowsky announced the introduction of the "Save Our Homes Act of 2001," legislation to expand current law to prohibit predatory practices by lenders and brokers.

Schakowsky was joined by U.S. Representative Bobby Rush (D-IL), local officials, and housing advocates. In addition, representatives from Fannie Mae, Shore Bank, Devon Bank and International Bank attended the event. Schakowsky is working with those and other financial institutions to curb lender abuse.

"Predatory lenders are thieves, preying on consumers who are house rich, but cash poor. They don't wear ski masks or hold a gun to your head. They come knocking on your door with neckties and loan papers, charge you credit card high interest rates, and steal the equity that you've built in your home," said Schakowsky, who is a member of the Financial Services Subcommittee on Housing and Community Opportunity.

In 1994, Mary White purchased her home for $69,900 and her monthly payments were $654, including tax and insurance. In 1998, after two predatory loans, her mortgage ballooned to $93,500 and her monthly payments are currently $795. According to the Department of Housing and Urban Development, her home today is appraised at $71,000.

"Mary White is one of the 'lucky' consumers. She was able to keep her home after being swindled by predators. Many others are not as lucky. On this block alone, five homes have been foreclosed and in this neighborhood, 191 foreclosures have been initiated since January of this year," said Schakowsky, who added that the number of high-interest loans in the Chicago-area rose by 3,685% to 4,958 between 1993 and 1999.

The “Save Our Homes Act of 2001” would attack predatory practices in the mortgage industry such as high interest rates, single premium insurance products, loan flipping and churning, unilateral call provisions, and loans made without regard to the borrower’s ability to pay. The legislation would also give consumers the ability to recover all interest, fees, and principal from lenders and mortgage brokers.

“Predatory lenders and brokers are out to make a fast buck on the backs of the elderly, homeowners in financial distress, low-income families and people of color. I applaud Mayor Daley, state officials, and industry leaders for their crusade to get those scam artists out of our neighborhoods and out of our state. I am proud to join the national fight to drive them out of business,” Schakowsky said.

Below are:

- summary of Save Our Homes Act of 2001; and
- details of Ms. Mary White’s predatory lending loans.

“Save Our Homes Act of 2001”
Legislation by U.S. Representative Jan Schakowsky (D-IL)
Member of the House Financial Services Subcommittee on Housing and Community Opportunity

TRIGGERS

Current Law:

Federal law only protects consumers seeking to obtain a home equity loan. Those current protections include disclosure requirements, limitation on prepayment penalties and balloon payments, and prohibition on direct payments to contractors from lender. Those protections are triggered if:

- the loan interest rate exceeds 10 points over comparable Treasury Bonds; or
- the loan points and fees exceed $400 or 8% of total loan, whichever is greater.

Save Our Homes Act of 2001:

Save our Homes Act expands protection for consumers seeking to obtain a home equity loan and a home purchase loan. Those protections are triggered if:

- the loan interest rate exceeds 5 points over comparable Treasury Bonds; or
- the loan points and fees exceed $1000 or 3% of the total loan, whichever is greater.

The legislation protects consumers from predatory lenders by prohibiting:

- **prepayment penalties for high cost loans;**
- **making loans without regard to a consumer's ability to repay;**
- **financing fees in excess of the 3% of the total loan or $600;**
- **unilateral balloon payments, which force consumers to refinance at a higher interest rate and pay higher fees;**
- **loan churning, or flipping. (The practice of frequently refinancing loans to create opportunities to raise interest rates or charge more fees);**
- **mandatory arbitration clauses;**
- **single-premium credit insurance;**
- **negative amortization, which is the practice of folding unpaid interest back into the principal and, in effect, charging interest on interest;**
- **encouraging default;**
- **writing contracts in language different from the language used in negotiation;**
- **signing contracts with blanks to be filled out later;**
- **loans designed to evade the provisions of this law; and**
- **coercing of appraisals.**

SCOPE
Current Law:

- **Only lenders can be held liable.**

Save Our Homes Act of 2001:

- **Expands coverage to include mortgage brokers. If a person brokers a predatory loan or issues a security backed by a predatory loan (thus giving predators the money to make more loans), then they would be liable for the damages allowed under this bill.**

ENFORCEMENT UNDER SAVE OUR HOMES ACT

- **Increases the penalties so consumers can recover all interest, fees, and principal.**
- **Ensures the rights of class actions suits.**
- **Expands the Home Mortgage Disclosure Act to track the interest rate on home loans by census tract, income, race and gender to enable regulators to identify predatory lenders.**

CONSUMER EDUCATION UNDER SAVE OUR HOMES ACT

- **Requires HUD certified mortgage counseling with high cost mortgages.**

Predatory Lending Victim

Ms. Mary White is a victim of predatory lending. While she is lucky that she is able to continue to reside in her home, she lives in a neighborhood that has experienced 191 foreclosures since January 1, 2001.

Summary

- **In 1994, Ms. White purchased her home for $69,900. Her monthly payments were $654, including tax and insurance.**
- **In 1998, after two predatory loans, her mortgage ballooned to $93,500 and her monthly payments are $795.**
- **According to the Department of Housing and Urban Development, today, her home is appraised at $71,000.**

Detailed Summary

1st Predatory Lending Loan – March 1998

Ms. White was approached by a mortgage broker who offered to help her refinance her home and pay off some bills. As a result, Ms. White was approved for a 30-year, $83,125 loan, at 11% APR, with $5000 in fees financed. Ms. White received $12,000 to pay bills and $1000 in cash. Ms. White was promised a quick refinance at a lower rate and was encouraged not to make any payments, which lead to (or encourages) default.

Would Save our Homes Act of 2001 have shielded Ms. White from lender abuse?

Yes, the high interest rate of 11% and excessive fees of $5000 would have triggered protections under the legislation. Those protections would have:

- **Required that Ms. White receive HUD certified mortgage counseling; and**
- **Prohibited encouraging default.**
- **Banned financing of fees above 3% of the loan amount or $600, whichever is greater.**

2nd Predatory Lending Loan – August 1998

Ms. White was coerced into refinancing once again with the promise of a lower interest rate and no fees. While she received an interest rate of 7.5%, she was

charged $7373 in fees, her monthly payments reached $795, and her loan ballooned to $93,500. She did not receive any cash.

<u>Would Save our Homes Act of 2001 have shielded Ms. White from lender abuse?</u>

Yes, the excessive fees would have triggered protections under the legislation. Those protections would have:

- **Prohibited loan churning or flipping, where her loan was refinanced with no apparent financial benefit to her.**
- **Banned the signing of contracts with blanks to be filled out later, as in her case.**
- **Required that Ms. White receive HUD certified mortgage counseling.**
- **Banned financing of fees above 3% of the loan amount or $600, whichever is greater.**
- **Increased the penalties so Ms. White could recover all interest, fees, and principal from the broker and lender.**