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EDITORIAL: Foreclose on state's predatory lenders

Staff

The faces behind the skyrocketing foreclosure rate in Georgia often belong to elderly homeowners who worked their entire lives to support their families and pay off their homes. House rich, but income poor, they become the perfect quarry for a predatory lender. Predatory lending targets a market known as "subprime" – consumers who have poor credit, are young and inexperienced, or are elderly and have equity in their homes. The subprime market – with profits six to seven times that of the conventional market – grew nationwide from \$20 billion in 1993 to \$150 billion in 1998.

That explosive growth has not escaped Main Street banks, many of which are now adding subprime units. And in what advocates call reverse redlining, banks set up their subprime affiliates in neighborhoods they once shunned.

Banks insist their subprime units make loans to people who have credit blemishes, and that the higher rates cover the higher risks. But the industry is out of control and extorts vulnerable borrowers by charging high fees and interest, collecting high pre-payment penalties and packing pre-paid, unnecessary credit insurance into loans secured by the borrower's home.

"It is legalized theft," charges David Beck, spokesman for the North Carolina coalition that passed the nation's first state law reining in predator lenders. Here in Georgia, state Sen. Vincent Fort (D-Atlanta) is proposing similar limits, but Senate Bill 70 faces resistance from bankers and lawmakers in debt to the banking lobby.

"It is happening all over Georgia," says Fort. "We're the predatory mortgage-lending capital of the United States."

The state's Department of Banking and Finance says its hands are tied. "We do think some of these abuses do occur, but until there are laws that actually prohibit them, there's not a lot we can do," says spokeswoman Leslie Bechtel.

Marietta attorney Howard **Rothbloom** has represented thousands of victims of predatory lending and won substantial settlements. "I cannot remember being in a single home of a person targeted who did not have a Bible on the table," he says. "These are religious and trusting people. And they are of a certain generation who believe in paying their bills."

Beautie Bailey is an example. The 82-year-old owns her Atlanta house in full, and except for a brief time when she held a Davison's charge, she has never even had a credit card. Yet a month after her husband died last August, Bailey signed her name to a 15-year home mortgage with Peachtree Funding Group at an annual percentage rate of 12.147 to finance a roof repair.

Peachtree Funding CEO Larry Ridgeway defends his loan, saying the rate offered was "competitive and fair." However, conventional banks were offering 15-year rates of just 7 percent on the day that Bailey signed her mortgage papers and home equity loans were hovering around 9 percent.

How do people end up in debt to a predatory lender? Imagine a low-income homeowner who suddenly ends up with a bill that he can't meet, such as a \$500 credit card charge.

Somebody calls and offers to make him a new loan and consolidate his debt. They convince him to increase the loan to pay off his car or to get a new furnace, and suddenly this person who couldn't pay a \$500 credit card bill now has a \$17,000, 15 percent interest loan on a house that he once owned free and clear.

As the borrower struggles, the lender often proposes new loans in a profitable scam called "flipping" that piles on new charges. A 1991 loan of \$567 to meet medical bills put Winfred Wood of Austell in the clutches of predatory lenders who flipped his loan nine times, until he owed three-fourths of his annual income.

Wood and 2,100 other Georgians have just agreed to settle a class-action suit case against Associates Financial Services of America for \$9 million. The suit was filed by **Rothbloom**, whose co-counsel at the time included Roy Barnes, now governor.

"These victims are not losers," says **Rothbloom**. "They are people who worked their entire lives. They may have worked cleaning commodes, but they worked every single day. By some fluke, they managed to stay in their homes and earn an asset with equity in it."

Fort's bill narrows the profit margin in high-cost loans by banning such abusive but lucrative practices as flipping, charging fees for paying off loans early, and the financing of credit insurance into the loan. It requires lenders to verify that the borrower is able to afford the payments and mandates home-ownership counseling.

State Sen. Don Cheeks (D-Augusta), the powerful chairman of the Senate Banking and Financial Institutions Committee, admits that "there is definitely predatory lending in Georgia." Yet Cheeks is not backing Fort's bill, saying the North Carolina law has "slowed down the economy there tremendously. Four different banks have refused to make loans on homes."

That's not how North Carolina tells the story. "We have seen one lender pull out who did an insignificant amount of lending," said Beck. "But North Carolina lending numbers were up last year."

As director of the Home Defense Program of Atlanta Legal Aid Society, William J. Brennan Jr. has battled abusive mortgage lending practices in Georgia for 30 years. He's always asked why his clients didn't seek financing from a conventional bank, especially since a national report says half of them would have qualified for standard loans.

While Brennan agrees that consumers ought to be savvier, he has a few questions of his own:

"Why can't these lenders charge a point or two higher to cover any risks associated with the loan? Why aren't the big banks in these communities? Why do they put their subprime affiliates there instead? Why do they have to rip people off?"

At a conference Wednesday on predatory lending, the Rev. Gerald Durley talked about the devastation these loans have wreaked on elderly members of his church, Providence Missionary Baptist.

"This is misery and evil, side by side," he said. If the General Assembly fails to take action to stop these predatory practices, it will become misery, evil and cowardice, side by side.

Photo: INSURING HIGHER PROFITS:

For 40 years, Winfred Wood (right) worked flipping burgers at a grill near his home in Austell. When he needed money for medical bills, he fell victim to a predatory lending scam that almost cost him his house. But he was one of the lucky ones. Wood and 2,100 other Georgians recently won a \$9 million settlement against a company that issued such loans.

Photo: THE ROOF FELL IN:

When 82-year-old Beautie Bailey agreed to get her leaky roof fixed, she signed what she thought was a financing agreement with the construction company. It was actually a mortgage on the home she had owned free and clear since 1997. Now, out of her monthly Social Security check of \$690, Bailey must pay \$150.21 each month for the next 15 years./
KIMBERLY SMITH / Staff

Graphic: WHAT YOU CAN DO

The fate of the predatory lending bill depends on how loudly voters make their voices heard. To urge passage, please contact:

Gov. Roy Barnes:

404-656-1776 or governor@gov.state.ga.us

Lt. Gov. Mark Taylor:

404-656-5030 or mtaylorx@legis.state.ga.us

House Speaker Tom Murphy:

404-656-5020 or fax him at 404-656-5644

Sen. Don Cheeks:

404-656-0045 or dcheeks@legis.state.ga.us

