

TACDC Policy Priorities

Issue: Protect Low-Income Families from Predatory Lending

Recommendations

1. *Support alternative mortgage and lending programs to reduce occurrences of predatory lending in low-income areas.*
2. *Train advocates and CDCs to educate low-income borrowers to the dangers of predatory lending.*
3. *Work with advocates to mobilize and empower our networks in the fight to create predatory lending reform at the state and federal levels.*
4. *Expand Anti-Predatory Lending Reform To Include Non-Mortgage Lending Products Such As Payday Lenders And Home Refinance Products That Are Predatory**

Background

For most families in Texas, owning a home is part of the American Dream. Homeownership represents the largest and most important asset for the typical family in Texas. Homeownership provides financial stability and the ability to leverage equity in the home to provide for higher education, business start-ups, or other costs that can benefit the family. Home equity plays a stabilizing role in the community and can be passed on for generations to help the family prosper.

Predatory lending, however, seeks to strip that equity from homeowners through a series of deceptive practices designed to take advantage of low-income and elderly homeowners. Predatory lenders target vulnerable borrowers with unfair loans at high prices that can lead to financial ruin and foreclosure of the property.

Predatory lenders target families and individuals that fit certain profiles. Typically, they prey upon homeowners that are cash poor, but asset rich. Elderly, minority, undereducated, and low-income homeowners are most often targets for predatory lenders because when faced with unexpected expenses they have little choice but to tap into the equity in their homes.

What is Predatory Lending?

Predatory loans exhibit specific characteristics that make them identifiable. First is a higher than normal interest rate. While subprime interest rates are expected for people with poor credit histories, predatory lenders typically charge higher than average subprime rates on predatory loans, often 12%-16%, while prime interest rates are

currently 7%-8%. In many predatory loan situations, the interest rate charged will have little relation to the credit worthiness of the borrower. Studies have shown that roughly 30% of subprime borrowers could have qualified for a prime interest rate. Other characteristics of predatory lending practices include:

- Excessive fees that either must be paid at closing, or more commonly, are financed as part of the loan;
- Long payment periods with a high balloon payment at the end;
- Loans made on the basis of equity in the home, and not the borrower's income or ability to repay the loan;
- Packaging different types of insurance (life, credit, mortgage) as part of the loan;
- Prepayment penalties; and,
- Frequent refinancing that increases the borrower's debt (loan flipping).

Recommendations

1. *Support alternative mortgage and lending programs to reduce occurrences of predatory lending in low-income areas.*

The Texas State Affordable Housing Corporation is working with Ameriquest Mortgage Company on a CDC initiated anti-predatory lending concept that is designed to reduce the interest rate for low-income borrowers, allowing them to move from subprime loans to more secure loans. The program works by creating a pool of funds that can be used to "buy down" the risk of a low-income borrower and improve the type of mortgage or home equity loan they purchase. The goal of the program is to provide low-income borrowers a viable alternative to seeking the services of predatory lenders. This is one of many potentially viable solutions and TACDC will continue to push for the creation and adoption of alternatives to predatory lending for low-income borrowers in Texas.

2. *Train advocates and CDCs to educate low-income borrowers to the dangers of predatory lending*

TACDC calls on mainstream lenders and affordable housing intermediaries to develop a training, or series of trainings, to educate CDCs on how to teach low-income borrowers about the dangers of predatory lending. By training organizations working in low-income areas, the material will be better able to filter down to those individuals who need the information the most; low-income borrowers. By educating low-income borrowers to recognize the common traps of predatory lending, these borrowers may be able to work with CDCs to secure more affordable, non-predatory mortgages and home equity loans.

3. *Work with advocates to mobilize and empower our networks in the fight to create predatory lending reform.*

During the 77th Texas Legislature, minimal anti-predatory lending protections were put in place. Unfortunately, these protections expired and were not renewed during the 78th

Legislature. TACDC encouraged the reinstatement of these provisions during the last two legislative sessions and will continue the effort.

TACDC is also working with Rep. Norma Chavez (D-El Paso) and other legislators to protect Texas consumers against predatory lending and TACDC calls on advocacy groups to promote additional anti-predatory lending measures to protect low-income borrowers across Texas. Future action on this issue should include:

- Elimination of requirement to purchase credit life insurance with mortgages;
- Full disclosure of all fees and interest rates; and
- Prohibition of lending to borrowers without regard to their ability to repay; Enforcement of current prohibitions and protections.

4. *Expand Anti-Predatory Lending Reform To Include Non-Mortgage Lending Products Such As Payday Lenders And Home Refinance Products That Are Predatory**

Predatory lending is not just limited to the mortgage lending market, but includes home refinance loans, payday loans, and other anticipation loan products that can be targeted to “asset rich” but “cash poor” families. TACDC calls on the Legislature to enact sweeping legislation to address all facets of the lending field that can be deceptive and predatory to unsuspecting borrowers.

