

Borrowers Beware

Predatory mortgage brokers don't give terms promised, causing some to lose their homes.

By Teresa Dixon Murray
Reporter, *The Plain Dealer*, Cleveland, Ohio

All Michael Sims wanted was a \$10,000 home equity loan to consolidate some bills. So the 43-year-old agreed last month to refinance the \$55,000 Cleveland home he has owned for 21 years.

But now he realizes he made a costly mistake: His interest rate is 13 percent instead of the 8 percent he was promised. His mortgage broker packed in thousands of dollars in hidden fees. His monthly payment is \$200 more than before. And that payment doesn't even cover his taxes and insurance, which he was told would be included.

Sims has lots of angry questions. "But every time I've tried to call the broker, they say he's not there, and he won't return my phone calls.

"This guy pulled a fast one on me. Everything was a lie," Sims says. "This is going to bankrupt me."

Sims is one of hundreds of Greater Clevelanders who believe they have been scammed by fast-talking mortgage brokers.

Predatory lenders have been stalking neighborhoods throughout the United States virtually unchecked for the past several years, consumer advocates and legal experts say. Within the past 1 1/2 years, however, the practice has mushroomed into a crisis as largely unregulated mortgage brokers cash in on the confusion and mounds of paperwork surrounding a home loan.

"The predatory lenders are basically seducing people and ripping them off," says Rachel Robinson, an attorney with the Ohio State Legal Services Association in Columbus.

No figures are available locally or nationally on the number of victims because authorities only know about consumers who call for help after they realize they have been duped. But virtually every major U.S. city has tallied hundreds of complaints in just the last few months, and they know there are hundreds more who haven't yet realized they were scammed.

Ned and Victoria Wilson of Cleveland didn't know they had been gouged until last week - nearly two years after they mortgaged their paid-off house to repay bills. Ned, 75, admits he put too much trust in what a broker promised.

Today, the Wilson's owe \$66,000 on what started as a \$40,000 loan before all of the fees and charges were added in. Their Kinsman-area home is worth only \$32,100.

Ned Wilson says he never realized he was committing to paying out \$753 a month. His Social Security check is only \$888. "My grandchildren drop me a dollar or two sometimes," he says, shaking his head. "You could read these loan papers all day and not understand them. Nobody could be nicer than that guy. He was going to take me golfing."

The details change but the horror stories are essentially the same: Homeowners sign a contract with a non-bank finance company for a refinanced mortgage or home equity loan, usually to consolidate bills or pay for remodeling. They later realize that the interest rate is much higher than promised and that the loan includes thousands of dollars in unexpected fees that legitimate lenders don't charge. The result is a

monthly payment that's higher than before - sometimes twice as high. Unable to pay, homeowners may eventually lose their houses to the lenders, who then sell the homes and make even more money.

"It's just legalized loan sharking," Robinson says. "It's like the Wild West in consumer finance."

It's gotten so wild, in fact, that Cleveland advocacy groups ranging from Consumer Credit Counseling to the Better Business Bureau are being bombarded by homeowners begging for help.

"We can't handle all of the phone calls," says Charles "Chip" Bromley, director of Metropolitan Strategy Group, a fair housing agency based in Cleveland Heights. Bromley's group earlier this month filed a \$10 million lawsuit against Midwest National Mortgage Corp. on behalf of three consumers and hopes to pursue claims against others.

"These are middle-class people signing these loan papers. They're smart. They have educations," Bromley says. "But these companies misrepresent the truth."

Valerie Daniels feels she was lied to in a big way. The 49-year-old legal assistant with the local office of the U.S. Immigration and Naturalization Service says she was promised a lower monthly payment when she refinanced her Cleveland home in January.

But her interest rate ended up at 11 percent - even though she was promised a rate comparable to her current 7 percent rate. And the monthly payment jumped from \$500 to \$700. The divorced woman is working eight hours of overtime each week just to keep up with the payments.

"They said, 'We can take 10 years off your mortgage.' They're cutting 10 years off my life," Daniels says. "They're going to take my house."

Elaine James, housing manager for Consumer Credit Counseling Service of Northeast Ohio, hears constantly from frantic homeowners like Daniels, logging an average of six calls a day.

"These companies just want to foreclose on people's houses," James says. "Something has got to give."

There is nothing wrong with charging high-risk customers a higher interest rate - a practice known as subprime lending. Subprime lending allows people with less-than-stellar credit histories to obtain virtually any kind of loan by paying a couple of percentage points more than lenders would offer customers with good credit.

Banks, auto finance companies and other lenders flocked to subprime loans in the 1990s because of the high profit margins. In the past five years, the dollar amount of subprime loans outstanding, including first and second mortgages, has grown from virtually nothing to \$500 billion. Subprime loans constitute about 12.5 percent of the total mortgage market today, according to the U.S. Department of Housing and Urban Development.

But predatory lending goes beyond subprime lending. Estimates suggest that half of subprime loans are made to people who qualify for low-interest conventional loans. Consumers with good credit often end up with high-rate loans because they respond to telemarketing calls or junk-mail fliers - instead of checking with actual banks or reputable lenders.

"These lenders want people to think they're in the B and C categories of credit, when they really have A credit," says Harold L. Williams, an attorney with the non-profit Legal Aid Society of Cleveland. "A lot of these people could get a good loan, but they don't know that."

In addition, consumer advocates say some lenders have preyed upon homeowners who are more likely to be desperate for money or less likely to understand the loan process. Senior citizens, single women and minorities were once favorite targets.

But because of confusing paperwork and limited regulation, everyone is fair game today, consumer advocates say.

"They used to target the inner city," Bromley says. "Now they've moved out to the suburbs. These victims are schoolteachers. They're grocery store managers. They're doctors. These are folks like your mother or brother."

James of Consumer Credit Counseling says more people are being taken in by predatory lenders because the brokers are smooth. Most have been trained with company scripts and know exactly how to gain people's trust on one hand and intimidate on the other.

Most consumers who end up victims never intended to borrow much money, Williams says. But they're massaged into believing a bigger loan or total refinance is the best idea.

Devastating Consequences

George Lenart says he never planned to refinance his 8.5-acre Wooster-area property, which includes his split-level home and two natural spring-fed ponds. He only wanted a \$10,000 home-equity loan.

He says he is still not sure how a broker convinced him to refinance his \$150,000 home and get a home-equity loan. His interest rate rose to 10.2 percent from 8.75 percent on one loan, and the rate was 12.65 percent on the other. The deal included nearly \$6,000 in hidden fees.

The 59-year-old truck driver for Giant Eagle in Bedford would have faced \$1,429 in monthly payments, almost double his current \$780. "He kept saying, Well we can do this for you and do that," Lenart says. "They make it sound so good."

Fortunately for Lenart, he realized something was wrong the day after he signed the loan papers and canceled the contract with a couriered letter last Wednesday. "I can't imagine what would've happened," he says. "There's no way I could have paid that."

Tom Parks wasn't so lucky. Having worked as a mortgage broker himself until last year, Parks certainly didn't think he could be scammed.

But the 40-year-old Lyndhurst man and his wife, Lori, say they became victims of a local predatory lender after they applied for a home-equity loan to consolidate bills. They were charged a 16.759 percent interest rate on a \$47,806 loan and \$4,232 for credit insurance - an item that legitimate banks don't charge.

When the couple realized the loan didn't cover one of the bills they wanted to repay, they refinanced again with the same company and were charged an additional \$5,477 in credit insurance.

When Parks said he didn't feel comfortable signing the documents, "the guy said, You don't have a choice. If you don't sign it, you don't get the loan," Parks recalls.

The original \$47,806 loan will now cost them \$313,052 to repay.

But it will never get to that point, Parks says. The couple, who have 2- and 4-year-old daughters, are contemplating bankruptcy. Their finances are now in such a mess that their house is being foreclosed upon and is to be sold Sept. 6.

Tom, who has spent several hours every week for the last 16 months trying to fix the problems, says he can no longer stand to think about what the lender has done to his family.

"I'm so tired," he says. "Things happen, little things, and I can't take it. Mentally I'm losing it. Why can't somebody do something so this doesn't happen to people?"

Help For Consumers

Government regulators, consumer advocates and legislators agree that laws protecting consumers from predatory lending have been slow to develop because the industry grew from a ripple to a tidal wave in just the last year and a half.

While consumers borrowing money are protected by laws, including the federal Truth-in-Lending Act, predatory lenders have been able to walk a fine line between what's legal and what's not, consumer advocates say.

But that is changing. In June, the U.S. Department of Treasury and HUD urged Congress and individual states to adopt laws banning excessive fees, credit insurance, balloon payments and other predatory tactics.

North Carolina became the first state to enact such anti-predatory lending regulations, last fall. The new rules already have caused a half-dozen lenders to move out of North Carolina.

Other states' legislatures and banking commissions are following North Carolina's lead.

Bromley of Metropolitan Strategy Group said local consumer advocates are pushing for similar legislation in Ohio. The effort has started slowly as his office and other non-profit groups are trying to get churches, businesses and legitimate banks to raise awareness about predatory lending. They're also being encouraged to pressure state legislators.

In a separate effort, Cleveland Mayor Michael R. White and city officials are working with mortgage powerhouse Freddie Mac on a public awareness campaign to teach local residents about home loans and warn them about making deals they don't understand.

But education is only part of the answer, Bromley says. "We need to work very hard on the statewide issue. The General Assembly can do this. We just need to get their attention."

In the meantime, Metropolitan Strategy Group expects to file more lawsuits against other local predatory lenders accused of ripping off local homeowners, according to agency attorney Carole Heyward.

But Heyward, who has tallied more than a hundred phone calls from victims, says the lawsuits and any future legislation won't be enough for the people who have already suffered. She has lost track of how many victims ended up getting second jobs to keep up with their loans, borrowing from their 401(k), or getting divorced. "Something will eventually be done about this," Heyward says. "But how many more people by then will have lost their homes?"

<http://www.msfraud.org/artic2008.htm>