Series name: HOUSED IN DEBT
Lead-in headline: THEY ARE POOR, IN DEBT AND HAVE BAD CREDIT; LENDERS PREY ON THEM TO CASH IN ON THEIR HOMES
Main headline: BEG, BORROW, BESIEGED

by Paul D. Davies, Daily News Staff Writer

AFTER VERONICA HARDING paid $7,500 cash for her house in 1980, she thought her financial future was secure. But today, rather than enjoying retirement, she faces $308 in monthly mortgage payments for the next 27 years.

By the time the 71-year-old Harding owns the house outright again, she will be 98. If Harding lives that long, a final $32,000 "balloon" payment is due.

"I'm going to end up paying $1 million for this house," she joked.

Harding's saga began in 1997 when she needed money for repairs and updates to her rowhouse on West Hagert Street in North Philadelphia. What she got was a costly $35,000 predatory loan.

Predatory lending is a fast-growing segment of the subprime lending industry. Unlike conventional loans, subprime loans have higher interest rates and are usually given to borrowers with bad credit.

Industry experts consider a subprime loan predatory if it has:

* Excessive points and fees.
* Balloon payments.
* Advance payments.
* Pre-payment penalties.
* Financed insurance.
* Lending without due regard to repayment.

Harding's loan from American Mortgage Reduction Inc. came with an annual interest rate of 11.4 percent, settlement fees of $5,500 and a broker's fee of 10 points, or $3,500. The deal included a $2,815 insurance policy financed at 22.5 percent interest - even though Harding said she already had insurance.

American Mortgage Reduction is no longer in business. The former owners have started a new company called Savings First Mortgage.

Harding is just one of the thousands of Philadelphians struggling to make payments on costly subprime loans, a Daily News investigation has found.

Many of the borrowers interviewed said they did not understand many of the loan terms they agreed to. Some said they were not even looking for a loan. Others said they ended up borrowing much more than they needed.

Nearly 50,000 subprime loans were made in Philadelphia in 1999.

Consumer advocates and studies indicate predatory lenders tend to target low-income residents who own their homes outright, or only have a few years left to pay on their mortgage. Many of the borrowers are older women living alone on a fixed income. Some are unemployed. Others live on welfare. The majority are black.

'A few bad apples'

Lending industry representatives said they do not endorse aggressive or deceptive predatory lending practices.

But they argue that subprime loans fill a void left by traditional banks. Most of the subprime loans are issued through mortgage companies. The subprime loans have higher interest rates and are usually given to borrowers with bad credit who may otherwise be denied conventional loans.

Borrowers that make regular payments can often improve their credit rating and eventually refinance into a conventional loan, lenders said.

Lenders also point out that the loan documents borrowers sign disclose the interest rates, fees and penalties. Borrowers get the documents in advance and have three days after the signing to rescind the loan. A number of federal and state laws exist to protect borrowers.

There are cases of abuse, but the instances are isolated, lenders said.

"The entire industry should not be held accountable for a few bad apples," said Jim Seisser, a broker at Alpha One Mortgage Corp. in Fairless Hills. "We explain everything to the people when they get these loans. They know what they are signing. The problem is that many of these people take out loans with no intention of ever paying them back."

Industry standard

Despite the disclosure requirements and laws, more and more borrowers end up with costly subprime loans they do not understand and cannot afford. Increasingly, the burdensome loans force residents to lose their homes to foreclosure, consumer advocates charge.

The number of mortgage foreclosures in Philadelphia has almost doubled since 1997.

Last year, 3,226 homes in the city were sold at sheriff's sales - almost nine foreclosures a day, Sheriff's Department data shows.

It is unclear if the jump in foreclosures is due to growth in predatory or subprime loans. But consumer advocates argue that the foreclosure rate soared at a time when the economy was booming, interest rates were dropping and the unemployment rates reached near-record lows.

Consumer advocates say predatory loans leave borrowers in a vicious cycle of mounting debt.

The excessive loans eat away the main source of equity for many borrowers - their homes. Over time, the increase in foreclosure leads to more abandoned houses and blight, consumer advocates said.

"Predatory lending is the housing equivalent of the crack cocaine crisis," said Irv Ackelsberg, a managing attorney at Community Legal Services, which has sued a number of subprime lenders on behalf of borrowers.

From 1994 to 1999, the amount of subprime loans nationwide soared from $35 billion to $160 billion. During that period subprime mortgage loans jumped from 5 percent of all lending to 13 percent. The sharp rise in predatory lending has caught the attention of the Federal Reserve, the Treasury Department and the U.S. Department of Housing and Urban Development. In Philadelphia, City Council is considering a bill that would crack down on predatory lenders.

"We are finding ourselves on the cutting edge of a major crisis," said City Councilwoman Marian Tasco, who introduced the bill.

Despite saying they are against predatory lending, industry representatives oppose the Council bill.

Brokers and lenders say it will dry up capital for many residents. Some brokers and lenders say that if the bill passes they will leave the city. In fact, some mortgage companies have stopped making loans on rowhouses, several brokers said.

Without the subprime lenders, borrowers with bad credit will not be able to get loans for home repairs or mortgages, industry representatives said.

"The subprime mortgage market is a positive vehicle," said E. Robert Levy, a lobbyist for the Pennsylvania Association of Mortgage Brokers. "Consumers who otherwise could not get a loan can get one from subprime lenders."

A common thread

The Daily News reviewed dozens of subprime loans and found many contained high interest rates, numerous fees, balloon payments and insurance policies financed in the loans.

The newspaper reported on the predatory-lending practice in November, prompting more than 150 phone calls. Through more than 50 interviews with borrowers and inspection of loan documents, a pattern emerged.

All of the borrowers interviewed knew the amount of their monthly payments, but none understood all of the financial details in their loan such as adjustable interest rates, balloon payments and points.

Many borrowers said they were not even seeking a loan when the lenders contacted them via mail or telephone.

John McMaster of East Tioga Street in Harrowgate received a $21,000 home equity loan from Delta Funding for home improvements. Of the amount borrowed, $4,187, or 20 percent, went to pay 15 different fees and settlement charges.

All of the fees are standard for any loan, said Marty Cohen, Delta's vice president of finance. The fees equal a higher percentage of the loan since the amount borrowed is not that large, Cohen said.

Delta received three of the fees totaling $591. The other fees included $250 for an appraisal and $995 for the title company for settlement charges.

The largest fee, $2,100, went to the broker, Central Credit Mortgage. Many brokers charge a standard 10 percent fee. The brokers say that they have fixed costs that do not change with the size of the loan.

McMaster's loan included $2,945 to pay off two existing loans with interest rates below the 15 percent interest charge on the new loan. He said he was told he had to pay off the existing loans in order to get the new loan.

Delta, like other lenders, often requires existing loans to be paid in full so that it would be first in line to get paid in case of default.

"It would make the loan more risky for Delta if we were in the third position," Cohen said.

McMaster, a high school dropout who has been on disability since 1991, struggles to care for his live-in mother-in-law and make the monthly payments of $232.

"To me, this company is a loan shark," said McMaster, 57.

He also is upset at the quality of some of the home-improvement work that was done. His tile floors are peeling only a year after they were installed.

"If they had just done the work I wouldn't be so pissed off," McMaster said.

The owner of the company that did the work said he has sent workers to McMaster's house at least twice after the job was completed. Jeff Schwartz, of DiNardo Home Improvement, said some tiles were replaced, but the damage was caused by daily use.

"I want to make sure the customer is happy, but we can't go out there every two months," Schwartz said.

Home improvement companies often work through brokers to get financing for the necessary work. What often starts out as a small loan for repairs or improvements grows into a large mortgage as brokers consolidate a borrower's outstanding bills and credit-card debt into one pricey loan.

Refinancing existing loans and liens has the added benefit of increasing the size of the loan. In turn, brokers who get paid on a percentage receive a larger fee. Borrowers said there was scant discussion by brokers of shopping for the lowest interest rate or least-expensive loan.

'Financial apartheid'

"This is a pretty sophisticated industry that focuses on stripping assets and wealth from neighborhoods," said Jeremy Nowak, president of the Community Reinvestment Fund, which has spent the past year researching predatory-lending practices in the city. The findings to date support other studies that show that predatory lending occurs more often in minority and poor neighborhoods.

In Philadelphia and its surrounding suburbs, 52 percent of blacks who refinance their mortgage receive a subprime loan compared with only 11 percent of whites, according to a recent study by the Association of Community Organizations for Reform Now, also known as ACORN.

In the city, 20 percent of blacks received subprime loans for home purchases compared with 2 percent of whites, the ACORN study found.

The findings were part of a national study that found that minority and low-income homeowners are much more likely to get a subprime loan than middle- and high-income borrowers.

"It's financial apartheid," said Carol Hemingway, president of ACORN Pennsylvania.

Margaret Newton of Frankford almost lost her house after agreeing to a predatory loan from United Companies Financial Corp., court records show.

Community Legal Services sued United Companies on behalf of Newton and three other homeowners, alleging they were charged substantial fees, were pressured into borrowing more than they could afford and failed to receive proper disclosures as required by federal law.

Newton, 76, lived on a fixed income and had suffered four strokes that made it difficult to walk, speak or read, according to the findings of fact by U.S. District Judge Marvin Katz.

Newton's previous loan requests had been denied when she was approached by Scott Kosit, a salesman at Affordable Vinyl Products. Kosit sold Newton a siding job for $9,990 and arranged for financing through United Companies, according to Katz's findings.

When United Companies finalized the loan, the total Newton agreed to borrow jumped to $15,500 - almost a 57 percent increase. The additional money went to cover fees totaling $3,050, or 20 percent of the loan. An additional $1,581 went to back real estate taxes and water bills. The remaining $525 went to Newton, court records show.

Newton agreed to the terms even though she did not understand all of the details. She made the monthly payments of $241 for a year, but fell behind. United Companies tried to foreclose on Newton's home, which she had bought in 1968.

Katz ruled in favor of Newton and the other homeowners and ordered United Companies to rescind the loans and pay each homeowner $2,000 in damages.

Katz found that United Companies violated the Home Ownership and Equity Protection Act, which requires lenders to disclose the credit terms to the borrower in writing three days before the closing. Newton did not see the papers until the day of closing.

The judge also found United Companies in violation of the Equal Credit Opportunity Act, which requires lenders to notify borrowers if their credit application has been denied, approved or changed. In Newton's case, the amount she wanted to borrow was increased to cover other bills without notice or explanation from United.

United Companies filed for bankruptcy and is no longer in business. Its loans are being serviced by EMC Mortgage.

Subprime targets

A Justice Department investigation found that subprime borrowers are saddled with interest rates as much as 70 percent higher than conventional borrowers.

Subprime borrowers pay 10 to 15 points of a loan in fees compared to 3 or 4 points for conventional borrowers.

Subprime borrowers also pay higher interest rates - further increasing their costs. For example, someone who borrows $100,000 over 30 years at an interest rate of 10 percent would pay $50,000 more than someone who borrowed the same amount at 8 percent interest.

While subprime loans are designed for those with bad credit, not every borrower is a credit risk. Close to half of all borrowers who receive subprime loans could qualify for conventional loans, according to Fannie Mae, a leading private mortgage provider for low- to middle-income homeowners.

A poll of the 50 most active subprime lenders found that 50 percent of their clients could qualify for a conventional loan, according to Inside Mortgage Finance, a trade publication.

Jean Bruce of West Philadelphia said she had good credit and owned her house outright. Yet she ended up with a $24,500 subprime loan with an interest rate of 14 percent. Bruce said she was in a hurry to get a loan and did not shop around.

"They stuck me," Bruce said. "They knew I needed the money fast."

More and more subprime lenders are fueled by an influx of cash from Wall Street firms in search of higher investment returns.

Large firms like Lehman Brothers sell bonds backed by subprime loans. In turn, many subprime lenders are owned by large financial institutions. Citigroup owns Associates. Bank of America owns Equicredit.

In addition to easier access to money, the Internet has made it easier for predatory lenders to target borrowers, such as the elderly or minorities.

Web sites like usadata.com sell lists of names customized by age, race, gender and ZIP code. Brokers can use the information to create a database of customers considered more susceptible to predatory loans.

House calls

In addition to Veronica Harding, lenders sought out 10 other homeowners on her street - the 2300 block of West Hagert - and arranged for them to take out subprime loans.

All are black. Some are related. One is Harding's niece. Another is her cousin. Two other homes are owned by a mother and daughter.

Harding and her daughter, Helena, joked about how they would grow old together on West Hagert Street. But two years ago Helena died, leaving Harding all alone.

Instead of enjoying her golden years with her daughter, nearly 60 percent of Harding's fixed income goes to pay the loan. Bill collectors hound her. Harding's estate is now deep in debt.

The collateral backing Harding's $35,000 loan is her house - her sole asset. If she fails to make the payments, the lender could take her home of 20 years.

Harding said she was not aware of the large final "balloon" payment. She said she could never make the last payment without taking out another loan.

But taking out subprime loans is nothing new to Harding: Over the last 12 years, she has had 14.

The initial loans ranged from $5,000 to $8,000, but increased as the loans were refinanced into newer loans.

Harding said she did not understand the difference between a subprime and conventional loan. She did not consider going to a bank. In fact, many lenders came to her.

Harding explained that brokers usually worked out a loan at her kitchen table. Harding said she never read the documents, instead relying on the broker's verbal explanation. When it came time to close the deal, Harding said she just signed where she was told.

"They make it so easy," Harding said. "They tell you they are going to pay off all of your bills. And then they give you a check. But a couple of months later you are in more debt than before."

Less than 10 minutes after a reporter arrived to interview Harding, a bill collector called. About a half hour later, a different company called to offer Harding a loan.

Send e-mail to daviesp@phillynews.com

Main headline: LENDING TALES OF HORROR
Deck headline: FOUR WOEFUL TALES OF HOW A NEED FOR $$ TURNED INTO MISERY

By Paul D. Davies

The vacuum cleaner

Betty Lefavi's troubles began when she wanted to borrow $300 for a vacuum cleaner. The lender, Beneficial Consumer Discount Co., offered to consolidate her Sears credit-card debt and lower her interest rate from 25 percent to 13 percent.

"I figured 13 percent sounded better than 25 percent," said Lefavi, who lives on East Tioga Street in Harrowgate.

Instead of $300 for a vacuum, Lefavi said she ended up with a $4,800 loan that included $1,500 in points and fees, or 31 percent of the loan amount. She continues to receive calls from lenders offering more loans.

"They call me at least once a month and try to get me to borrow more," Lefavi said.

The Beneficial office where Lefavi got her loan referred calls to district sales manager Robert Shaar, who could not be reached for comment.

The big balloon

Phyllisa Styles of North Philadelphia co-signed a $58,000 loan for her sister from Ford Consumer Discount Co. The interest rate is 13.5 percent for 15 years with a final "balloon" payment of $51,165 due in December 2009.

Styles said she never asked for a balloon payment and did not know that was what the loan terms called for.

Styles does not work and receives disability. She is falling behind on her bills, including $6,000 in back taxes.

"I worry every month that I will lose my house," Styles said.

Ford Consumer Discount is no longer in business. The loans have been sold off to other lenders.

A hole in the roof

Yasmeen El of South Philadelphia received a check in the mail last April for $4,000. She needed money to patch a hole in the kitchen roof and to purchase a used car.

So El, 60, cashed the check, fixed the roof and bought a car for $900. A few days later, a representative from Household Finance called and said she needed to sign some papers.

El went to the office. The loan papers included single premium credit life insurance and other fees, bringing the total amount borrowed to $8,000. The interest rate is 25 percent.

"Because my loan is more than twice what I expected, I have fallen behind," she said. "Household calls me regularly, two to four times per week, and I am seriously worried about losing my home."

Household spokesman Craig Streem said El's loan would not increase unless she signed additional papers that disclosed any costs and fees.

Streem added that the company does not require borrowers to purchase insurance, but may recommend coverage. The cost of the policy is disclosed and borrowers have 30 days to change their mind at no cost

"We've been around 122 years and have no interest in taking advantage of people," he said.

The missing contractor

Levi Moore inherited a house in Southwest Philadelphia from his mother. He owned it free and clear when contractor James Holleran approached him offering home improvements.

Holleran arranged for a loan through Central Money Mortgage in 1998 to make repairs and consolidate outstanding debts. Moore and his wife, Florence, borrowed $33,000 at 11.75 percent. Of that, $17,000 was for the home repairs and the rest went to pay debts and loan fees.

Holleran started the work two months later, but skipped out with the cash without finishing the job. The Moores were left with a 15-year mortgage that includes a final balloon payment of $29,000.

Holleran was charged with theft, forgery, tampering with records, deceptive or fraudulent business practices as part of a wider investigation where a number of homeowners lost money.

He reached a tentative plea agreement with the district attorney's office last month that calls for him to pay $152,000 in restitution, up to 23 months of house arrest and five years' probation.

Holleran declined to comment.

Main headline: UNDERSTANDING THE LANGUAGE

By Paul D. Davies

SUBPRIME LOANS: Loans usually made to low- and middle-income people with a less than perfect credit history. The increased credit risk results in a higher interest rate than those paid by borrowers with a better credit history.

POINTS: A fee that can be charged as part of the loan. Each point is equal to 1 percent of the loan amount. Conventional borrowers can pay points to help lower the interest rate.

MORTGAGE BROKER: An independent real estate financing professional who specializes in generating home or commercial mortgages.

BROKER'S FEE: The fee a broker charges to help borrowers get a loan. In many subprime loans, the fee is 10 percent of the loan.

CREDIT INSURANCE: An insurance policy often sold to subprime borrowers and financed in the loan. The insurance is used if the borrower dies, becomes disabled or unemployed. Brokers often push credit insurance because it includes a large commission for them since some lending companies are affiliated with insurance companies.

BALLOON LOANS: Loans that require a large final or "balloon" payment that can amount to nearly the total loan amount. Lenders say balloon loans allow borrowers to get loans at lower monthly costs than they would otherwise be able to. This is especially appealing to borrowers who expect their income to increase or expect to be able to refinance a loan within a few years.

LOAN FLIPPING: Lenders make loans that refinance existing loans in an effort to pocket more fees. A bill being considered by City Council considers a loan "flipped" if it takes borrowers more than five years to recoup the transaction costs through lower interest.

NEGATIVE AMORTIZATION: Loans that include a payment schedule that results in an increase in the principal balance.

PREPAYMENT PENALTIES: Fees that are charged if a loans is paid off more quickly than planned.

ADJUSTABLE RATE MORTGAGES: Loans that allow for the interest rate to go up or down depending on economic conditions. These loans start at a lower interest rate, but can often go up after a year. These enable borrowers who expect their income to increase to get loans they may not otherwise afford.

Main headline: ANYTHING FOR A DEAL
Deck headline: SOME BROKERS USE QUESTIONABLE TACTICS, CONFUSE BORROWERS

by Paul D. Davies, Daily News Staff Writer

REGGIE McGLAWN likes to boast that he can get anyone a loan - regardless of his credit history.

"If I can't get it done, it ain't gettin' done," he said.

To support his claim, McGlawn whips out a file on a recent deal he did for a homeowner on Girard Avenue in North Philadelphia. It was a rowhouse in need of repairs. The lot next door was vacant.

McGlawn said he had the appraiser take the picture to make it appear the house was a twin, which would boost the value of the property. Then McGlawn shopped for a lender who did not realize it was a rowhouse in a tough neighborhood.

"I had to go out of town to get this one done," he said, referring to the out-of-state lender who provided the funds.

Welcome to ground zero of the subprime lending industry.

Mortgage brokers like McGlawn work the front lines, connecting borrowers to lenders. They make the cold calls and mail the fliers. They sit in borrowers' kitchens filling out loan applications. On occasion some may bend rules to close a deal. But all say they provide a valuable service that borrowers need and want.

Consumer advocates counter that many brokers do more harm than good. Motivated by lucrative fees and incentives, some brokers push borrowers into costly loans that they cannot afford. They charge excessive fees up to 10 percent of the loan. A few brokers even skirt federal regulations, court records and a Daily News investigation reveal.

The bad brokers operate in the fast-growing segment of the subprime lending market known as predatory lending.

"They are the new 'Tin Men,' " said Jeremy Nowak, head of The Reinvestment Fund, referring to the movie set in the 1950s about unscrupulous aluminum siding salesmen.

The Daily News interviewed dozens of borrowers during a three-month investigation who said they felt tricked or pressured into costly predatory loans they did not understand or cannot afford. Some started out wanting a small loan but ended up with a large mortgage. One borrower on welfare claims a broker urged her to lie about her income.

Many of the borrowers interviewed were older and minorities who live on a fixed income. Their only asset was their home - which they often have lived in for decades.

Enticed by the offer of a remodeled kitchen or a quick financial fix, these unsophisticated borrowers agree to the costly loans. Many said they did not know their loan called for a large final "balloon" payment or that the interest was adjustable.

Some do not understand the fees and payment schedule. Many are angered that their loans got sold off to an out-of-state company, making it difficult to get local help with questions.

Almost all the borrowers admit they failed to read the loan documents and instead relied on the broker's verbal assurances.

Let the borrower beware

The brokers tell a different story.

Strict guidelines require that lenders disclose fees and the cost of a loan up front. Borrowers get the documents in advance of the closing. After getting the loan, borrowers have three days to change their mind.

McGlawn said borrowers know what they are getting into, but many choose to ignore the warnings, let alone read the details.

"These people are so happy to get that money I can't make them read," said McGlawn, who claims to be the largest African-American broker in Philadelphia.

McGlawn prides himself on getting loans for residents of the North Philadelphia neighborhood where he grew up. Not every customer has been satisfied.

Beatrice Barker of North Philadelphia went to McGlawn in 1998 seeking a $10,000 loan for home improvements. She ended up borrowing $19,500 at 18 percent interest. Of that, $8,200 went to refinance an existing loan that had an interest rate of 9 percent - half the rate in the new loan. The rest went to fees and other outstanding debt. After paying existing bills and loans fees out of the $19,900 borrowed, Barker ended up with $424 in cash.

Barker eventually filed for bankruptcy. Alan White, an attorney at Community Legal Services, sued McGlawn's company and the lender, Gelt Financial, on behalf of Barker.

U.S. Bankruptcy Court Judge David Scholl found McGlawn's firm committed fraud and breach of fiduciary duties, and violated the state Credit Services Act and Consumer Protection Law. Scholl ordered McGlawn's firm to pay Barker $7,450 and $10,000 to CLS for legal fees.

Gelt Financial settled out of court and agreed to modify Barker's loan. The new amount is for $8,000 at an interest rate of 9 percent.

McGlawn said Barker had time to review the documents before and after signing for the loan. He pointed out that this was the second time she filed for bankruptcy. McGlawn said she was behind on several outstanding loans but continued to borrow.

"The woman knows the game and she played it," he said.

Brokers point out that many borrowers have bad credit, unpaid water and gas bills and owe back taxes. Some borrowers lie about their income or fail to mention a previous bankruptcy.

Because of the credit risk, the interest rate is high. The size of the loan increases as back bills get consolidated into the deal. After agreeing to the loan, some borrowers fall behind on the payments and complain that the interest rate and fees are exorbitant, the brokers argue.

"These people get lazy and decide they don't want to pay their bills so they go to legal aid and claim they didn't know what they were signing," said Margo Robinson, a broker who owns Robinson Financial Group in the Northeast. "But they've been trifling from day one."

Looking for easy credit

Many borrowers interviewed said they did not figure out the details of their loan until it was too late. To get the loans, borrowers agree to put their homes up as collateral. The deals often leave the borrowers deeper in debt and unable to make the payments. Many never pay off the loans, but instead refinance into another subprime loan with high interest rates and fees. Some can't make the monthly payments and end up losing their homes.

Brokers often work in tandem with home improvement firms to lure borrowers into predatory loans for home repairs. The brokers and contractors tend to target the working poor, elderly, women and minorities. They look for homes that are paid for or have a substantial amount of equity built up. That way if people default the lenders can take their house.

Often the brokers offer to consolidate bills. Some borrowers interviewed said they were not even looking for a loan. Instead, brokers bombarded them with offers for easy credit via telephone, door to door or neighborhood fliers. The brokers approached them at a time when they needed money.

"I get calls and letters every week. One company contacted me twice in the same day," said Irene Robertson of North Philadelphia.

The brokers make the process fast and easy. Rather than enter intimidating bank offices, many brokers fill out the paperwork at the borrowers' kitchen tables. One even drove elderly borrowers to their settlements.

Much of the money goes to pay off existing loans and bills. Some of the funds go to needed home repairs. As an added enticement, the loans are often structured to ensure the borrowers get some cash back.

The growing problem plays out almost daily inside the jammed offices of Community Legal Services at North Broad and Erie streets. Seven CLS attorneys now work full time on predatory lending cases. The agency represents 70 home owners in lawsuits against just one company - United Companies Lending Corp.

"Many people have a hard time articulating what the loan was for," said Irv Ackelsberg, a managing attorney at Community Legal Services. "There are lots of cases where the person wanted to borrow $5,000 to remodel a kitchen and ended up with a $30,000 loan."

Often the borrower has liens against their property for outstanding bills, including unpaid taxes, water and sewer bills. The brokers offer to pay off the bills and consolidate the debt into one loan. This serves two purposes: A bigger loan equals larger fees for the broker. And paying off outstanding loans and liens ensures the lender is first in line to take the borrower's house if he defaults.

Gail Floyd of North Philadelphia needed to borrow $1,500 for a new heater but ended up with a $33,600 loan with an interest rate of 13 percent. The loan included more than $5,000 in fees and another $2,400 for credit life insurance - both financed over the life of the loan. Ackelsberg got Floyd out of the loan, but not before she filed for bankruptcy.

In several other cases, a United Companies loan officer used pre-signed loan agreements that included a 10 percent broker's fee - even though no broker was involved in the deal.

United Companies is no longer in business.

'You got to lie. . .'

The Daily News interviewed a borrower who alleged a broker encouraged her to lie about her income.

Roberta Bryan's loan application lists her as a day-care operator making $1,300 a month. Just one problem: Bryan was on welfare and worked part-time at a supermarket making $126 a week. How did she get from $126 a week to $1,300 a month?

"The [broker] told me I wouldn't get the loan with the kind of money I was making at a supermarket," said Bryan, who now makes even less at a Hess gas station.

At the time, Bryan was sitting with the broker at the kitchen table of her house on South Cecil Street in West Philadelphia. Her three kids and their three friends were playing in the next room.

"[The broker] looked around and said, 'Looks like you take care of a lot of kids, so why don't you put down that you own a day-care business,' " Bryan recalled.

Bryan knew that was wrong, but said she felt pressured.

"He told me everyone does it," Bryan said. "He said, 'You got to lie to get ahead.' "

Bob Notafrancesco, the broker from Bi-County Mortgage, denied urging Bryan to lie.

"That's absolutely incorrect," he said. "We only put down what they tell us."

The 30-year deal came with an adjustable interest rate starting at 12.6 percent. The loan included $2,584 in fees, almost 10 percent of the amount borrowed. Bryan now struggles to make the $290 payments each month.

Bryan got the $27,000 loan last year. The lender was Sterling National Mortgage. Sterling's vice president Howard Rice said Bryan supplied the names of three customers from the day-care. Sterling contacted the customers who said Bryan watched their children in return for a fee.

Bryan said the customers included her sister, a neighbor and a friend. She said she did not watch their children.

"[The broker] told me to get the names," she said. "I told [the women] to lie, and they lied."

Lenders concede that there are cases in which brokers fail to follow procedure. But those instances are isolated. Like any industry, there are some corrupt brokers. But they do not represent the majority of brokers who obey the laws and provide good service, industry representatives argue.

"The percentage of people who we help is much greater than the percentage who are hurt," said Robinson, the broker in the Northeast.

Subprime lenders and brokers say they fill a void in neighborhoods abandoned by traditional banks. If it wasn't for them, many poor and minority residents would have no access to capital, they argue.

Industry representatives say the loan documents spell out the terms.

Veronica Harding, 71, of West Hagert Street in North Philadelphia, received a $35,250 loan that included 11 fees. Below the list of fees was a warning that reads: "Please keep in mind that these fees may be high; however we are disclosing the maximum lender/broker fees that you could be charged."

Brokers argue that subprime loans are not designed for the long term. Balloon loans allow borrowers to make smaller monthly payments to start. If the borrower makes payments on time for two years, he can usually refinance the loan into a conventional loan, brokers say. Borrowers who make regular payments can improve their credit rating.

Critics counter that rather than repair a borrower's credit, the burdensome predatory loans create a cycle of high-cost borrowing that leads to deeper and deeper debt. Or worse. After falling behind on their mortgage, some lose their homes to foreclosure.

Poor and elderly targeted

Despite the strong economy, the number of foreclosures in Philadelphia has more than doubled the last three years. Consumer advocates say the sharp rise in foreclosures is due to the rampant increase in predatory lending within the $160 billion subprime lending industry.

There were nearly 50,000 subprime loans made in Philadelphia last year alone. It is unclear how many were predatory loans. Studies indicate the majority of subprime loans are made in poor and minority neighborhoods.

Consumer advocates say predatory lenders target the poor and elderly because it is easier to talk them into the high-cost loans. In fact, the Internet has made it easier to target specific borrowers. Rather than cold calls, brokers can buy customized lists of potential borrowers off the Internet.

One Web site, usadata.com, sells customized lists to anyone. Brokers can request names and telephone numbers of potential borrowers by ZIP code, age, race and income. For $100, you can get up to 500 names. The list is ready within hours. For an added fee, you can get the names on printed labels for mass mailing.

The Reinvestment Fund, a nonprofit dedicated to building wealth in the inner city, has been researching predatory lending practices in the city. The research includes tracking subprime lending patterns by neighborhood.

In addition, a team of Reinvestment Fund researchers led by former HUD official Ira Goldstein has interviewed borrowers, brokers and lenders. Some of the loans it reviewed raised concern.

"We found one loan where the money was going to buy groceries," he said.

The Reinvestment Fund's preliminary research shows that subprime lending is more prevalent in poor and minority neighborhoods. More borrowers in those neighborhoods refinanced prime loans into subprime loans than did borrowers in middle- and upper-income parts of the city. An analysis of some of the loans found borrowers' main source of equity - their homes - has been stripped away, Goldstein said.

David Freeman, 80, of North Philadelphia, put his house up as collateral in return for a $3,585 loan at 23 percent from American General Finance. The collateral also include exercise equipment, a stereo, TV, camera and grill as collateral, the loan documents show.

Freeman's daughter, Vicki, said her father's "mind is going," and he may not have understood what he was signing. Since 1984, Freeman has received eight subprime loans.

They didn't shop for rates

McGlawn, the broker who was not involved in Freeman's loan, said many borrowers have accumulated piles of debt that must get paid off before the loan is approved. That drives up the size of the loan. The house is used as collateral and the interest rate is higher because the borrower is a credit risk.

"I get people who haven't paid their taxes in 10 years," McGlawn said. "They owe the Water Department $10,000. They owe a ton of money to credit card companies. Do you think that a deadbeat should get the same deal as the person who pays their bills on time?"

The borrowers interviewed said they did not shop around for the best deal. Many said they did not have perfect credit and did not think they could qualify for a conventional bank lone.

George Anders of Strawberry Mansion said he couldn't even recall why he borrowed $36,550 loan from American Mortgage Reduction Inc. three years ago.

"I guess I needed the money," he said.

A broker contacted Anders. The loan documents were filled out at his kitchen table. The 30-year loan was used to consolidate bills and pay off an existing loan with a interest rate of 6 percent.

The new loan has an interest rate of 14.5 percent - more than double the interest rate on Anders' previous loan.

The new loan also included closing fees totaling $3,131, almost 10 percent of the amount borrowed. But Anders did not have the money for the closing costs. So the company approved a second loan to pay the fees at an interest rate of 22 percent. Both loans charged Anders $500 for a title search.

Anders did not understand the details of the loan and was afraid to ask any questions.

"That was my mistake," he said, sitting in his kitchen under a sign that read "To rely on others is to be disappointed."

American Mortgage Reduction is no longer in business.

McGlawn, who was not involved in Anders' loan, argues that borrowers know exactly what they are getting into when the sign for the loans.

"Nobody is crying when they get that check," he said. "Is it up to me to come back each month and make sure they pay their bills?"

Send e-mail to daviesp@phillynews.com

The three-day Housed in Debt series is the result of a Daily News investigation into predatory lending, a fast-growing segment of the subprime lending industry that tends to target low-income homeowners in poor neighborhoods.

ABOUT THE SERIES

YESTERDAY: A look at The Borrowers,

the people who are being victimized by predatory lenders.

TODAY: A look at The Predators,

the lenders who are preying on low-income homeowners.

TOMORROW: A look at The Enforcers,

the consumer advocates and government officials who are fighting predatory lending.

Main headline: NOT MUCH IMPROVEMENT
Deck headline: CASHED CHECKS DIDN'T ADD UP TO HOME UPGRADES

by Paul Davies, Daily News Staff Writer

Of all the outrageous predatory lending tales, few can top James M. Holleran's.

Holleran, 41, a West Chester contractor and broker, got home equity loans for more than a dozen Philadelphia residents. He then took the cash and never completed the work, according to a police affidavit from the Philadelphia District Attorney's office.

Holleran reached a tentative plea agreement with the DA last month that calls for him to pay $152,000 in restitution and serve up to 23 months house arrest and five years' probation. Holleran is expected to plead guilty to 16 counts of theft, theft by deception, and deceptive or fraudulent business practices.

Holleran declined to comment. After exiting the Criminal Justice Center, he tried to dodge a photographer and threatened "to bust him in the eye."

Holleran's attorney, Bryan Lentz, said his client agreed to plead guilty to the charges and repay his victims.

"He's taken responsibility for his actions," said Lentz, who declined to explain why Holleran acted as he did.

According to an affidavit prepared by Philadelphia Police Detective Alfredo Quintile, Holleran's pitch worked like this:

Telemarketers would call homeowners offering easy financing for home repairs. Holleran - whose two companies were Global Construction and Arrow Waterproofing - would come out and estimate the cost of the repairs.

Many of the borrowers were elderly women, living on fixed incomes in rowhouses. Holleran drove some elderly customers to their loan settlements. After the loans were finalized, Holleran would get the borrowers to sign the checks over to him. Then he would pocket the cash and not do the work, according to the affidavit.

Bernice Stone of North Park Avenue in North Philadelphia was unemployed and coping with her brother's murder when she got a call about a home improvement loan.

Stone said her slain brother's children were coming to live with her and she wanted to upgrade her house for them. But her main source of income was welfare and disability. Given her income, Stone didn't think she would qualify for a loan.

But in June 1998, Stone received a check for $17,133 from Central Money Mortgage. She signed the check over to Holleran to pay for a new roof, door, windows and kitchen.

Holleran cashed the check and never returned.

Stone was left with the monthly payments and nothing to show for her trouble.

Bertha Griggs, 90, of West Glenwood Street in North Philadelphia got a loan in early 1998 for home improvements that were never completed.

The $10,421 check was endorsed "Bertha Griggs pay to the order of James Holleran." But Griggs is legally blind and said she did not sign any checks or documents, according to the affidavit.

Mary Littlejohn, 60, of West Somerset Street in North Philadelphia, received a call from a telemarketing firm in late 1998 offering financing for home repairs.

Littlejohn did not think she would qualify for a loan since her sole source of income was Social Security. After putting her house up as collateral, Littlejohn received a loan for $15,310 in April 1999.

Littlejohn signed the check over to Holleran, who told her work on remodeling her bathrooms would begin in two weeks.

The work was never done.

Main headline: FISHERMEN OR THE ANGLERS?

Paul D. Davies

Consumer advocate Irv Ackelsberg claims that it's easier to become a licensed mortgage broker in Pennsylvania than to get a fishing license. He may be right.

There is no training, test or degree required. All you have to do is fill out a 13-page application, which is available on the Internet at www.banking.state.pa.us.

Send the application and $500 to the state Department of Banking and presto! You're a licensed broker.

Lead-in headline: HIGH-COST LENDERS THREATEN TO VACATE PHILLY IF COUNCIL PASSES REGULATORY BILL; ADVOCATES SAY GO AHEAD
Main headline: FIGHTING THE PREDATORS

by Paul D. Davies, Daily News Staff Writer

THE BATTLE LINES have been drawn in the war against predatory lenders.

In December, more than two dozen Philadelphia homeowners packed City Council chambers in support of a bill aimed to crack down on predatory lenders.

Led by the housing advocacy group ACORN, the boisterous crowd waved signs and cardboard cutouts of sharks - as in loan sharks. They chanted rhymes like "predatory lender, criminal offender." Several homeowners were paraded before Council to tell their lending horror stories.

Last month, more than 60 lenders, lawyers and lobbyists came to a Council briefing to voice their opposition to the bill.

They included Tabb Bishop, a lobbyist with Wodjak & Associates; Howard Cain, a political strategist; Bruce Crawley, a public relations exec and friend of Mayor Street's; Obra Kernodle, an attorney and political strategist; Bill Miller a public relations exec; Carl Singley, an attorney and Street confidant; and Eric Weinberg, the nephew of attorney Marty Weinberg, who ran for mayor.

The high-powered lawyers and lobbyists have been retained by large banks and mortgage lenders. They are quietly twisting the arms of key members of City Council.

If approved, Philadelphia will join a growing list of cities and states that have taken steps to stop predatory lending - a type of loan that includes high interest rates, exorbitant fees and points, hefty final "balloon" payments, large pre-payment penalties and often unneeded credit insurance.

Chicago was one of the first to pass an anti-predatory lending measure. New York passed a bill that limits the amount of points and fees to 5 percent. North Carolina implemented one of the toughest bills in July.

The local measures are in addition to existing federal and state laws.

But even when armed with the national regulations, North Carolina officials said predatory lending continued to spread. Officials there point to a predatory lender who refinanced a Habitat for Humanity house with a 0 percent mortgage into a 14 percent loan.

Bad credit practice

A Daily News investigation found a number of Philadelphia borrowers with predatory loans that charged 10 points plus thousands of dollars in fees. A borrower on welfare said a broker pressured her to lie about her income. Another was living on a fixed income when she received a loan she could not afford.

Borrowers get the loans in return for putting their houses up as collateral. Once the borrowers get behind on the loans, lenders often refinance and charge more fees or take the houses through foreclosure. Despite a strong economy during the last three years, Philadelphia's foreclosure rate has doubled during that period.

Studies show that the majority of predatory lending victims are the poor and minorities. Many are elderly. Some are on fixed incomes.

The loans are often used for home repairs and to consolidate debt. To get the loan, borrowers usually mortgage their home - their main asset.

Mortgage industry representatives argue that many borrowers have poor credit and could not obtain a conventional loan. For some borrowers the subprime market, which charges higher fees and interest, is the only alternative.

If the Philadelphia bill is passed, lenders say they will leave the city. Borrowers with bad credit will have no access to capital, they argue.

"The good lenders will leave the market and only the bad ones will remain," said Robert Levy, a lobbyist for the Pennsylvania Association of Mortgage Brokers, which has 587 members. "The people who can't get loans will end up in foreclosure."

Carol Hemingway, the Pennsylvania president of the Association of Community Organizations for Reform Now (ACORN), said there is no evidence that lenders will leave.

"What will happen is the lenders will realize they need to change their practices," Hemingway said.

What's at stake

In arguing against the bill, many mortgage lenders point to North Carolina.

As in Philadelphia, opponents of the North Carolina measure warned of a credit crunch. So far, the predictions have failed to materialize.

"We have not had a shortage of credit," said Otis Meacham, the North Carolina deputy commissioner of banks.

A few lenders did pull out. But Meacham said the state was happy to see them go.

"Some said if you do this we will leave," he said. "We said, 'goodbye.' "

Irv Ackelsberg, an attorney at Community Legal Services, urged predatory lenders to leave Philadelphia.

"To those who threaten to leave, I say I-76 is this way and I-95 is that way," Ackelsberg said, pointing out the way to the two major highways through the city.

The Philadelphia bill proposes to limit points and fees to 4 percent of the total loan amount. Many brokers now charge 10 points plus thousands of additional dollars in fees. (One point equals 1 percent of the loan amount.) Some loans include points and fees equal to 20 percent of the amount borrowed. That's in addition to the double-digit interest rates.

In most cases, usury laws - which protect against charging exorbitant interest rates - fail to protect borrowers. That's because deregulation during the Reagan administration eliminated usury laws on certain kinds of mortgages.

The Philadelphia measure calls for a limit on interest rates. The bill would prohibit refinancing certain loans to a higher interest rate. It would require borrowers of high-cost loans to receive loan counseling.

A number of lenders opposed the counseling measure, saying it was time consuming and an affront to borrowers.

"We think this bill is overreaching," said Thomas Detelich, managing director of Household Finance, who flew from Chicago to voice his opposition.

Protecting borrowers

Consumer advocates said the need for counseling and other provisions is the result of lenders taking advantage of unsophisticated borrowers.

"Your inability to police yourself has resulted in the need for this bill," said Khalil Walker, program director at the Housing Association Information Program, of the industry representatives opposing the bill.

The bill would also require contractors to give borrowers written warnings against mortgaging their house in return for a home improvement loan. At settlement, the lender, title insurance company and mortgage broker would have to certify a loan is not predatory.

Those that do not comply face a variety of fines and penalties, including fines of up to $300 a day, the loss of city contracts and the loss of their business privilege license.

Predatory lenders also would no longer receive government housing funds. The bill would also require the city pension fund to divest of holdings of companies considered predatory lenders.

Several brokers argue that the bill is already having a negative impact. They said a number of large mortgage lenders have taken steps in recent weeks to limit the types of loans they make in the city.

Some lenders will no longer provide mortgages or refinancing for rowhouses. In addition, the lenders will only make loans of more than $40,000, the brokers said.

Rather than risk charges of red-lining, many lenders will use the proposed city ordinance as a reason to leave the city all together, said broker Scott Brown of Great American Capital.

"This bill is bad for the city, bad for the borrowers and bad for the brokers," Brown said.

Industry representatives and watchdog groups point out federal and state laws designed to protect borrowers already exist.

The main federal laws are the Home Ownership and Equity Protection Act; the Real Estate Settlement Procedures Act and the Truth in Lending Act.

HOEPA requires additional disclosures and limits costly provisions like prepayment penalties and balloon payments. The law also prohibits lenders from making mortgage loans based just on the value of the property without consideration of the borrowers' ability to make the payments.

TILA requires disclosure of loan terms, including the interest rate, fees and the total amount of payments.

RESPA prohibits splitting of fees and kickbacks by lenders to other companies for referrals and unearned fees. The law also requires disclosure of settlement costs and lenders' business ties with affiliated companies, such as if a lender owns the insurance company that sells insurance to the borrower as part of the loan.

In Pennsylvania, there are other laws designed to protect residents. The Mortgage Brokers and Bankers Act provides industry guidelines for lenders.

The state also has consumer protection and civil rights laws at its disposal. Critics say there is not a lack of regulations.

"The problem is laws don't get enforced," said Ira Goldstein, director of public policy and program assessment at the Reinvestment Fund. "I get the feeling no [one] is minding the store."

Better enforcement of existing laws would help reduce abusive lending practices. But nearly everyone agrees that the best defense against predatory lending is increased education of borrowers.

"When you hear these predatory lending stories, my initial reaction is 'Gee, why couldn't the borrower get someone to review the papers before they signed them?' " said Edward M. Gramlich, a Federal Reserve Board governor.

Send e-mail to daviesp@phillynews.com