COUNCIL OF THE CITY OF PHILADELPHIA
PUBLIC HEARING AND PUBLIC MEETING
BEFORE COUNCIL COMMITTEE ON
PUBLIC HEALTH AND HUMAN SERVICES

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Room 400, City Hall
Philadelphia, Pennsylvania
Monday, December 11, 2000
11:15 a.m.

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BILL 000715 - an ordinance enacting a new Chapter 9-2400 of the Philadelphia Code, entitled "Prohibition Against Predatory Lending," and amending Section 19-201 entitled "City Depositories," Section 19-2602 entitled "Licenses," and Section 22-1001 entitled "Investments," to prohibit all business entities and their affiliates from making, issuing or arranging any sub-prime or high-cost loan or assisting others in doing so in any manner which has been determined to be abusive, unscrupulous and misleading, providing penalties for noncompliance, establishing a Predatory Lending Review Committee to investigate alleged predatory loans and to make enforcement recommendations against business entities who have made, assisted with, issued or arranged a loan determined to be predatory, and granting remedies to aggrieved parties and community organizations; all under certain terms and conditions.

PRESENT:

COUNCILWOMAN MARIAN B. TASCO, Chair
COUNCILMAN DAVID COHEN
COUNCILWOMAN DONNA REED MILLER
COUNCILWOMAN BLONDELL REYNOLDS-BROWN
COUNCILMAN FRANK RIZZO

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I N D E X

P R O C E E D I N G S

COUNCILWOMAN TASCO: Could I have your attention, please. Councilmembers are on their way and we will begin the public hearing shortly.

Thank you very much for your patience.

Good morning. Committee on Public Health and Human Services will come to order. We have a quorum in the presence of Councilwoman Donna Reed Miller, Councilwoman Blondell Reynolds Brown, Councilman Rizzo, and myself. We'd like the Clerk to read the title of the bill into the record, please.

THE CLERK: Bill No. 000715, an ordinance enacting a new Chapter 9-2400 of the Philadelphia Code, entitled "Prohibition Against Predatory Lending," and amending Section 19-201 entitled "City Depositories," Section 19-2602 entitled "Licenses," and Section 22-1001 entitled "Investments," to prohibit all business entities and their affiliates from making, issuing or arranging any sub-prime or high-cost loan or assisting others in doing so in any manner which has been determined to be abusive, unscrupulous and misleading, providing penalties for noncompliance, establishing a Predatory Lending Review Committee to investigate alleged predatory loans and to make enforcement recommendations against business entities who have made, assisted with, issued or arranged a loan determined to be predatory, and granting remedies to aggrieved parties and community organizations; all under certain terms and conditions.

Thank you.

COUNCILWOMAN TASCO: Thank you very much.

Good morning. I'm Marian Tasco, Chair of the City Council's Committee on Public Health and Human Services, and we welcome you here this morning for this hearing.

(Applause.)

COUNCILWOMAN TASCO: This is a hearing that has been in the making since the early spring. I became aware of this predatory lending issue last winter through a segment on Good Morning America, and it was reaffirmed that it was also a national issue. We had had some earlier problems in my district.

The segment told the lamentable story of a homeowner who had obtained a loan for housing improvements. The loan had so many complicated terms and costs which the homeowner had not expected and could not pay, she lost her home in foreclosure.

During the hearings Community Development Block Grant proposal, several representatives from home and loan counseling agencies testified as to how the practices had entered into the Philadelphia market and was creating havoc for our residents homeowners. The witnesses indicated that some protections and safeguards had to be put in place immediately.

Northwest Counseling Services set up a variety of community meetings to discuss the issue. Congressman Bob Brady and I made the rounds of the sessions to alert consumers to possible pitfalls in the home mortgage process, and this is still a much-needed message.

Out of the same Community Development Block Grant hearing, I began a conversation with ACORN, which expressed an interest and willingness to participate in drafting a piece of legislation based on their case files, both locally and nationally.

In the fall, I supported the establishment of a local predatory lending task force under the direction of Michelle Lewis of Northwest Counseling Services. Jeff Ordower (ph), head of ACORN Predatory Lending Committee took the issue to the editorial board of Philadelphia Inquirer. I am most grateful to both of these organizations in their leadership for their involvement and commitment to this project and for keeping it on the front burner.

I also express -- you may clap if you'd like.

(Applause.)

COUNCILWOMAN TASCO: Some of you may know that there has been a task force ad hoc committee on predatory lending, and that committee is made up of all of the organizations in the City, just maybe about 25 or 30 organizations to address this issue. And they have an ongoing task force process going on, and this piece of legislation sort started with ACORN and we drafted it at their request, but the task force also is looking at legislation because we have to go to the State. And we have begun discussions with some of our State legislators to ask them to become familiar with this issue so that whatever legislation has to be drafted and proposed and chartered through the State legislative process, we will do that. So it's an ongoing process and we are really pleased to have the task force working on this and we also want to thank those members of the ad hock committee who worked to put this bill together.

Finally, I'm very appreciative of the time and attention that the Office of Housing and Community Development afforded this drafting process and the full participation that OHCD has pledged to the enforcement process.

I see John Kromer's here. I want to thank you very much.

We find ourselves on the cutting edge of a dilemma that continues to surface in cities around the nation. So prevalent and of such a crisis nature is this phenomenon that both the Department of Treasure and the Department of

Housing and Urban Development issued a joint report in June of this year entitled "Curbing Predatory Lending Home Lending."

So we know that we're on the right course, and we intend to take those actions which will protect the civil rights of our citizens and our real estate tax base. We often hear that it is difficult to define predatory lending, but this bill makes definite progress in itemizing the characteristics of predatory loans. We can take direction from the Supreme Court on this one. As with obscenity, a definition may be elusive, but we know it when we see it; and we are beginning to see it more than we would like.

You will see in the testimony of various borrowers who became victims of these practices. In a nutshell, predatory lending can be undertaken by creditors, brokers, or home improvement contractors. They engage in outright deception and fraud. They manipulate the borrower through aggressive sales tactics and they usually take unfair advantage of a borrowers lack of understanding about loan terms. Quite frequently, the loan terms themselves are abusive. The bill identifies 13 of these tactics.

This legislation is our first in developing a strategy to combat predatory lending. We will invent our own process for protecting our citizens in Philadelphia.

(Applause.)

COUNCILWOMAN TASCO: Even though there may be a statute that originates in Harrisburg or Washington, many features of Bill 000715 mirror the recommendations and the joint report of the Treasure Department and the Office of Housing and Urban Development. They make an extraordinary case for education and counseling and the development of a literacy level that can protect our consumers.

Finally, they speak out quite firmly on the need for local governments to establish predatory lending task forces to see serve as watchdogs and ombudsmen.

(Applause.)

COUNCILWOMAN TASCO: This morning you will hear from borrowers, advocates, loan counselors, lending organizations and their representatives. I anticipate a continuing dialogue around the feature of the bill with all of the interested parties. With the cooperation of the lending community, I believe that we can stamp out the abusive and harmful practice of predatory lending, and I thank you very much.

(Applause.)

COUNCILWOMAN TASCO: I want to thank you all and hope that you will give respect to the people who come to the table. Allow them to make their presentations. You may agree or disagree. We hope you will hold your comments until you come before the table and you can respond. You can share your agreement or disagreement, but we would like to have this hearing held in a very orderly and respectful manner. And I will tell you I'm suffering here today from the flu, so I hope you will bear we me.

First we're going to have panels. And so we will call groups of people up together because they'll talk about the same issue in that panel.

Our first panel this morning will be

the Pennsylvania Commission on Human Relations. And we all Sandra Bacoate who's the Regional Director and Charles Nier, Assistant Chief Counselor, if they're here.

(Witnesses come forward.)

COUNCILWOMAN TASCO: Good morning. Would you state your name for the record, please.

MS. BACOATE: Good morning. My name is Sandra Bacoate, and I am the Regional Director of the Pennsylvania Human Relations Commission. I'm being supported in my testimony today with Assistant Chief Counsel for the Commission, Charles Nier. Mr. Nier is also an active member of the task force, and we very much appreciate the opportunity to be with you here today to present this testimony.

COUNCILWOMAN TASCO: Thank you, Sandra. We've been around a long time, haven't we? Still fighting for the same issues.

MS. BACOATE: Yes.

COUNCILWOMAN TASCO: Proceed.

MS. BACOATE: First of all, Councilwoman, while our commissioners have not yet had the opportunity to fully review this particular ordinance, the issue of predatory lending is one of concern for the Commission. As you may be aware, the Commission enforces the State laws prohibiting discrimination in employment, housing and commercial property, publish accommodations, and education.

In establishing the Human Relations Commission, the Pennsylvania legislature found that the practice or policy of discrimination against individuals or groups by reason of their race, color, familial status, religious creed, ancestry, age, sex, a few other protective areas, that that discrimination is a matter of concern to the Commonwealth, and specifically, the statement, such discrimination forments domestic strife and unrest threatens the rights and privileges of the inhabitants of the Commonwealth and undermines the foundations of a free Democratic state. The denial of equal employment, housing and public accomodation opportunities because of such discrimination and the consequent failure to utilize the productive capacities of individuals to their fullest extent deprives large segments of the population of the

Commonwealth of earnings necessary to maintain decent standards of living, necessitates the resort to public relief, and intensifies group conflicts, thereby resulting in grave injury to public health and welfare, compels many individuals to live in dwellings which are substandard, unhealthful, and overcrowded, resulting in racial segregation in public schools and other community facilities, juvenile delinquency, and other evils and thereby threatening the peace, health, safety and general welfare of the Commonwealth and its inhabitants. Such findings, unfortunately, remain true today and are germane to the issue of predatory lending.

Under the Pennsylvania Human Relations Act, it is unlawful to refuse to sell, finance, or otherwise deny or withhold any housing accommodation or commercial property from any person because of their race, color, familial status, age, religious, creed, ancestry, sex, national origin or disability or discrimination against any person in the terms or conditions of selling or leasing any housing accommodation or commercial property or in furnishing facilities, services, or privileges in connection with the ownership, occupancy, or use of any housing accommodation or commercial property because of those same protective classes.

As the proposed ordinance's legislative findings indicate, citizens from many lower and moderate income neighborhoods in Philadelphia have been unable to access legitimate financing for home purchases and renovations. Indeed, the historical origins of predatory lending are inextricably linked to the practice of redlining. Historically, some traditional financial institutions engaged in the practice the redlining minority communities resulting in a credit vacuum in such areas. Where entire minority communities were abandoned by traditional financial institutions, the residents of those areas were forced to turn to other sources of credit. This process resulted in the creation of a dual housing finance market. Such a dual market presented attractive prey to unscrupulous predatory lenders who exploited such circumstances by implementing the practice of reverse redlining.

In contrast to redlining, which is the practice of denying the extension of credit to specific geographic areas due to the income, race, or ethnicity of its residents, predatory lenders may engage in reverse redlining, which is the practice of extending credit on unfair onerous or fraudulent terms to those same persons and/or those communities with the aim to strip equity from the mortgaged property and/or seize the equity rich property through foreclosure.

In the past, the Commission has received, investigated and resolved complaints involving allegations of redlining by traditional financial institutions. Several such cases were resolved with the goal of providing legitimate financing for home purchase and renovations which in turn could undercut the market for predatory lenders.

Further, the Commission has received complaints involving allegations of predatory lending. For example, the Commission received one complaint in which the complainant alleged unlawful discrimination because of her race, African-American, by targeting her property in an African-American neighborhood for foreclosure because of an alleged default in loan payment. The complainant maintains that she has no knowledge regarding the mortgage for the respondent, as it was handled by deceased husband. She's currently facing foreclosure. Such a loan may have been prohibited under the terms of this proposed ordinance, or at a minimum, the complainant may have received home loan counseling and received appropriate educational information regarding the loan transaction. In other words, the ordinance has a potential to afford protection before a potential act of discrimination occurs.

Similarly, the Commission is familiar with studies and research that have suggested that predatory lenders often target minorities, minority neighborhoods, and the elderly for abusive predatory practices. Any predatory lending practice which result in housing being made unavailable to persons because of their protected class and/or subject to discriminatory terms and conditions thereby reducing their ability to use and enjoy housing because of their protected class are of great concern to the Commission. Such practices would constitute a violation of the Human Relations Act and would be inconsistent with the Commission's legislative mandate to eradicate unlawful discrimination in the Commonwealth of Pennsylvania.

In conclusion, the Commission commends the efforts of Councilwoman Tasco to fight this effort to combat predatory lending and glad to assist in that effort.

COUNCILWOMAN TASCO: Thank you very much.

Mr. Nier, do you have any comments?

MR. NIER: No, I don't.

COUNCILWOMAN TASCO: Thank you both very much for coming. We appreciate your testimony.

MS. BACOATE: Thank you.

(Applause.)

COUNCILWOMAN TASCO: I'm going to go to another panel. I want Ira Goldstein, Carol Hemingway and Irv Acklesberg. They've been involved in this issue for a long time. I want them to establish on the record just what we're talking about here and...

(Witnesses come forward.)

COUNCILWOMAN TASCO: We have many, many members here this morning from the lending community, and we want them to have a clear understanding of what this legislation is all about and how we got here, which I've kind of laid out, but also some of the problems that you have dealt with as representatives from people who have been victims of predatory lending and what our objectives are here today.

So, Irving, do you want to go first? Or who wants to go first? Carol?

MS. HEMINGWAY: Okay, thank you. Good morning, Councilwoman Tasco.

COUNCILWOMAN TASCO: Good morning.

MS. HEMINGWAY: I would just like to, on behalf of ACORN, thank you for inviting us here today to testify. I am Carol Hemingway. I am the president of Pennsylvania ACORN and I have been working on this issue of predatory lending for some time.

I want to do three things in my

testimony today. First, I want to talk about some research and studies that ACORN has done in our neighborhoods about the epidemic of predatory lending. Second, I want to talk about living in the community and how easy it is to get a predatory loan and the system of financial apartheid under which we live. Third, I want to dispel the misconceptions and horror stories from the Mortgage Brokers Association and other opponents of solving this problem.

Facts: Acorn did a study called Equity Stripping which focused on the Kingsessing neighborhood in Southwest Philadelphia. Kingsessing is where we have had an ACORN neighborhood chapter for 23 years called PACO, Positive Action Community Organization.

(Applause.)

MS. HEMINGWAY: Twenty-three years of neighborhood organizing has done a lot of good for that neighborhood. The Kingsessing Recreation Center is in fantastic shape and the neighborhood has traditionally escaped many of the worst aspects of blight in similar neighborhoods. However, we are devastated by the impact of predatory lending in Southwest Philadelphia. Between 1992 and 1998, sub-prime lending in Kingsessing increased from 5.3 percent of all loans to 63 percent of all loans originating in the neighborhood. In the City as a whole, the foreclosure rate is skyrocketing despite the good economy. In Kingsessing, for example, 79 percent of all foreclosures are from non-bank lenders. These loans lead to foreclosures; good bank loans do not.

Sub-prime lending has created financial apartheid in this country and in this city. And what I mean by that is quite evident in this country that there is a system of lending practices that are based on race, neighborhood, and class, which concerns us greatly. It seems that this is not the American way of doing business, that people are not getting credit based on the fact of credit risk, but more so based on where they live, the neighborhoods they come out of, and the race that they are. That is a problem for us.

We continue to perpetuate two financial systems of low-cost credit available to some and to a system of high-cost credit available to others. Low- and moderate-income people and minorities pay more for the same credit and as a result we see a massive unnecessary transfer of wealth from the poor to rich, Wall Street investors. This is truly criminal.

Second, I want to talk about what this really means in my neighborhood. I'm from South Philadelphia. In South Philadelphia, we are inundated by the flyers, the information, the telephone calls, the recruitment of people by contractors referring them to predatory lenders to do home repairs, to do different things done in their homes. One of the things that often people come to me is like they said, I've gotten five phone calls in a week from somebody saying that my roof needs to be repaired. These people actually go around in the community, look at buildings, see buildings where roofs are decaying. They have a whole system where they come around and say, "Oh, we know." Go back, get names from people, get their telephone numbers, call them up on the phones and say, "Is your home in need of roof repair? We were referred by your neighbor so-and-so," because they got the name of somebody who lives down the street so people think that they are legitimate contractors looking out for them because somebody referred them to them. This is not how business should be done in our communities.

Third, I want to dispel the myth perpetuated by our opponents. If we pass this legislation, many lenders will be driven out of our neighborhoods. I sure hope so because predatory lenders, brokers, and shoddy contractors have no place in my neighborhood. Many of our folks who have good credit will then be able to find good bank loans which are being under-marketed because of the dim of sub-prime. For those of us with blemished credit, we will start to see lenders who make loans based on a borrower's credit and risk. A small number of sub-prime lenders like AmeriQuest are stepping up to the plate. And Philadelphia is a good pilot city for their work.

Finally, this bill emphasizes long counseling above all else. Philadelphia's home ownership rates are incredibly high nationally due to the fact that this city spends more money on housing counseling than a lot of other cities in the country. We need to create the same bridge around refinancing, home equity, and home repair loans because this is where these predatory lenders prey on people a lot. With good housing counseling, we can match borrowers up with good products. When predatory lenders are doing the counseling, borrowers, community, and Philadelphia loses. For the last 15 years we have been battling to make the dream of home ownership a reality for thousands of Philadelphians and have been succeeding. Now, an indiguous plot to strip plot and equity from homeowners is unfolding.

On behalf of the 5,000 members, families of Philadelphia ACORN, hundreds of thousands of low- and moderate-income Philadelphians and thousands more current and potential victims, I urge you to support this bill.

Thank you very much.

(Applause.)

COUNCILWOMAN TASCO: Thank you very much. We'll hold the questions till after the presentations.

MR. GOLDSTEIN: Good afternoon. My name is Ira Goldstein and I'm the Director of Public Policy and Program Assessment at the Reinvestment Fund. We at the Reinvestment Fund welcome the opportunity to convey to the City Council of Philadelphia the results of some of the findings of our foundation funded research on the topic of the proposed legislation, predatory lending. Our work is not yet complete and the results that we report really should be viewed as a work in progress. For interest of brevity, I'll skip the description of the Reinvestment family, as I'm sure you're aware of who we are and what we do.

In terms of the context of predatory lending, we like to think of mortgage industry as having products that broadly fit into two categories, those that are prime and sub-prime. Prime loans are designed for those borrowers whose credit is generally quite good and whose transaction fit squarely within the general parameters of the mainstream financial institutions and the secondary market.

Sub-prime loans are designed for those borrowers whose credit is somehow flawed or whose transactions --

COUNCILMAN COHEN: May I ask the speaker to slow down little.

COUNCILWOMAN TASCO: Slow down a little bit.

COUNCILMAN COHEN: I think what he's saying is very important and I would like to get it all.

COUNCILWOMAN TASCO: Can you speak into the mike. I can hardly -- you're moving so fast, it's muffled.

MR. GOLDSTEIN: Okay.

COUNCILMAN COHEN: And slow down, be comfortable.

MR. GOLDSTEIN: Okay.

(Laughter.)

MR. GOLDSTEIN: Now I'm comfortable.

Prime loans are designed for those borrowers whose credit is generally quite good and whose transactions fit squarely within the general parameters of the mainstream financial institutions and the secondary market.

The sub-prime loans are designed for those borrowers whose credit is somehow flawed or whose transactions do not fit the general prescriptions relating to the amount of debt one can carry, how much money they are putting down or some other critical underwriting characteristic.

In general, it is safe to assume that those getting loans in the prime market pay less both in terms of the interest rates and the points and fees than those getting loans in the sub-prime market. And although by no means do we imply that all sub-prime loans are predatory, predatory lending generally does occur within the sub-prime mortgage market.

The generally recognized characteristics of predatory loans are that, unlike the rest of the mortgage market, in a predatory loan the cost, that would be the interest and a whole variety of fees that are borne by the borrower far exceeds the risk that is presented by that borrower. Ordinarily there is some equation between risk and cost. The greater the risk, the greater the cost, and vice versa.

Additionally, predatory loans generally appear to be made without regard for the borrower's ability to pay or, perhaps more importantly, their true need or desire for credit; thus, a default, a foreclosure, or a refinancing of that loan really becomes inevitable.

Finally, the borrowers appear to have been targeted because of some characteristic that makes them particularly susceptible to the predatory lender. For example, the borrowers may not have options, know that they have options, or be sufficiently experienced to evaluate the transactions that are placed before them. Oftentimes borrowers live in areas that are historically under-served by mainstream financial institutions. Accordingly, the borrowers do not always have well-established banking relationships or experiences. What makes these predatory transactions especially hazardous to borrowers is that because the loans are secured by the borrower's homes, failure to meet the financial obligation can lead to dire consequences, that being foreclosure.

The Reinvestment Fund received a grant from the Ford Foundation in January of the year 2000 to study the issue of predatory lending, and this research is being undertaken using several approaches. First, we're attempting to go develop methodologies to estimate the nature and extent of predatory lending across the City of Philadelphia and our study is limited to the City of Philadelphia. This task uses data on the sale and finance history of a sample of loans across the City. We are also looking at every residential property in selected census tracts for a separate and complementary analysis.

Second, we are conducting systemic interviews with people who are in some way related to this process. Interviews include people currently or formerly involved in the lending process which might include borrowers, lenders, brokers, titlement and settlement attorneys and agents, appraisers, foreclosure attorneys, trade associations, and State regulators. The interviews, taken together with the statistical work, give us a unique body of knowledge to draw upon for this testimony.

Research is beginning to show that there are areas of the City of Philadelphia that are especially vulnerable to predatory lenders. Vulnerability is defined using three factors, the value of housing, and their lower value generally equates to higher vulnerability. The percentage of homes owned by people 55 or more years of age where higher percentages equate to higher vulnerability. And the percentage of homes owned free and clear, again, where higher percentage equate with higher vulnerability. The areas of greatest potential vulnerability cluster in North, West, and South Philadelphia, and I attached to the testimony a copy of the map that displays where we believe the areas of greatest vulnerability are.

Aside from the three characteristics used to define potential vulnerability, areas that are highest in vulnerability have other characteristics in common. For example, these areas tend to have lower income. They have experience greater estimated population loss between 1980 and 1998. They have substantially higher percentages minority. And they have higher percentages of adults with less than a high school degree.

Preliminary data analysis on selected areas in several neighborhoods of the City, and those area are highlighted on that map with a little red border around the census tract.

COUNCILWOMAN TASCO: Do we have copies of your testimony?

MR. GOLDSTEIN: Yes, you do.

COUNCILWOMAN TASCO: All right. Thank you.

MR. GOLDSTEIN: Preliminary data analysis on the selected areas of the City show that the more vulnerable the area, the more likely it is to manifest lending patterns consistent with predatory lending. Areas that manifest greater potential vulnerability show far higher likelihoods of refinancing, both prime and sub-prime loans into sub-prime loans than the areas of lower vulnerability. Conversely, areas that manifest greater potential vulnerability show far lower likelihood of refinancing both prime and sub-prime loans into prime loans, the latter representing a sort of credit repair refinancing touted by sub-prime lenders as one of the benefits of the product.

Additionally, the lending institutions most active in the areas of greatest potential vulnerability are very different from those in the other areas in the City. Whether these patterns clearly suggest predatory lending may be debated, but what is not debatable is that the residents of certain areas of the City of Philadelphia are clearly paying more than others for access to mortgage credit and they are dealing with a different set of financial institutions.

Another indicator of predatory lending is the systematic extraction of equity from the home that can be reflected in multiple refinance transactions within a very short period of time, each time for a slightly greater amount. This culminates oftentimes in a large refinance coming close to or even exceeding the value of the home. We have found that areas with a higher potential vulnerability are substantially more likely to manifest that pattern of refinance transactions as well.

Our interviews with borrowers and others involved in the transaction suggest that the borrowers oftentimes do not comprehend the complex transactions they enter into. Think about whether a naive borrower could truly comprehend a 15-year mortgage with a 30-year amortization schedule, meaning that at the end of 15 years, they owe a significant balloon payment. Or that the loan they just got can adjust as much as 7 percent in one year keying it ultimately to an interest rate standard, LIBOR, that is not used by most prime or sub-prime lenders.

We have been told how borrowers are targeted and aggressively marketed. Brokers can buy lists off the Internet of names of people who are older, of lower income, likely homeowners and likely living alone. From that, they can search publicly available property records and determine who may already have a sub-prime loan. And these people are then targeted for the predatory product.

We have heard how the need for small amounts of credit are turned into significant first liens in order to generate more fees for those involved in the transaction. The transactions make no rational economic sense for the borrowers and do not yield them a net financial benefit. We have seen examples where people are paying off HEMAP loans with sub-prime loans carrying interest rates far in excess of the term. We have similarly heard of an owner of one of the Nehemiah homes who was approached by the refinance soft-second mortgages totaling more than $20,000 in order to get a few thousand dollars cash to do basement renovations. That means they were willing to take on over $20,000 worth of debt that they did not have to pay back.

COUNCILWOMAN TASCO: What's a HEPMAP loan?

MR. GOLDSTEIN: HEMAP is the Homeowner's Emergency Mortgage Assistance Program. It's a state program that's design to provide assistance at the point that they are facing foreclosure.

COUNCILWOMAN TASCO: All right.

MR. GOLDSTEIN: We have heard of instances where borrowers have paid as much as $3,000 for one year of force-placed property insurance, contents excluded. Thousands of dollars are paid in single-premium credit life insurance premiums. All these things add unnecessarily to the indebtedness of the borrower and can lead to the lose of their home.

Borrowers think that their brokers, although paid dearly, represent them. Fees for brokers sometimes exceed 10 points or 10 percent of the mortgage amount. Brokers do not have a legal obligation to get their best or most appropriate deal. While most ethical brokers do work hard to get their customers a selection of deals and options, others do not. Regardless of the needs of the borrower, the predatory broker will bet the deal that is most financially advantageous to him or her, not to the borrower.

Borrowers are unrepresented at settlement and thus are at a distinct disadvantage. Disclosers, although plentiful for certain, are not an effective means to communicate the dimensions and gravity of the transaction being contemplated. In response to a question about the efficacy of the various disclosure forms, one broker told us "These people don't understand..." And I'll leave the word out. This broker went on to say that he does not like to attend settlements because the borrowers ask too many questions.

Although not a link scientifically made, it is reasonable to suspect that areas hardest hit with predatory lending are most likely to be the areas experiencing greatest increases in foreclosures. A cursory review of the data from program year 2000 on those HEMAP applications show that some of the areas with the greatest number of the applications for assistance are the areas with the greatest potential vulnerability for predatory lending.

Additionally, our analyses show that the incidence of sheriff sale activity is higher in sample high potential vulnerability census tracts than those with the lower potential vulnerability. One of our interviewees told us that for numerous reasons, some financial, some administrative, homes taken in foreclosure frequently become abandoned dwellings blighting entire community. Thus, it is not only the individual borrower that is hurt by the transaction, we are all adversely impacted.

In conclusion, we at the Reinvestment Fund applaud the City Council of Philadelphia for taking on this issue on behalf of all Philadelphians and remain committed to sharing our findings with any interested party.

We thank you for the opportunity to testify and stand ready to answer any of your questions.

COUNCILWOMAN TASCO: Thank you very much.

(Applause.)

MR. ACKLESBERG: Members of Council, my name is Irv Acklesberg, and I'm the managing attorney of the North Philadelphia Office of Community Legal Service. I also lead our consumer work. And for years, for the last 25 years much of my practice has consisted of assisting Philadelphians in foreclosure crisis.

Now, traditionally when you see a

foreclosure, you don't focus too much on the origins of the loan. Someone applied for a loan, you assume it was legitimate, something happened to them in the future, an injury, a loss of job, whatever, something's happened and so you try to get them back on track.

About -- I would say in about 1996, we started to see foreclosures coming in that had a different character to them. And they had sort of three unique characteristics. One was that they were very recent loans, loans just made within the last year, two years. And the people facing the foreclosure often had a very hard time articulating the reasons for the loan. I mean, that may seem odd but, in fact, person after person would come in and would be confused as to how they got the loan, why they got the loan, and what the loan was for. And clearly, way out of proportion, often, even when they did remember, for example, it was to get work done in their house, the amount of loan would be vastly out of proportion with the amount of work that they had done on the house.

And the third characteristic is that

often these were people with very, very clear vulnerabilities. I mean, one of my very first cases, Paratransit brought in a woman who walked in with her walker. She had suffered several strokes. Within the last year she had entered into a fairly complex transaction, and I found out that they actually had to hold her hand to sign papers.

Now, what began as a trickle of cases around 1996, a trickle of these new and very suspicious transactions, soon became an explosion. Now, remember we're talking about in these years of relatively strong economy. Always one of the rules of the mortgage business is when the economy is good, the foreclosure numbers are down. But what's happened here is the opposite. The economy is good, but foreclosure numbers have skyrocketed. And we know that from Sheriff Green, I believe, has also said that he's noticed a tremendous bump upwards of foreclosures. It's because of the nature of the lending changing.

Now, presently at Community Legal Services and Philadelphia Legal Assistants, our sister organization, I would say that we are currently -- we currently have, I would say, seven lawyers working full-time on defending predatory lending cases, and we cannot come close to meeting the demand. We are begging for help from the Bar Association to help us. We know that we cannot save all of the houses that need to be saved. We are convinced that what we are facing is the housing equivalent of a public health epidemic.

Now, in order to understand what these loans are and how different they are from what most of us conceive of as mortgage transactions, I brought with me a typical settlement sheet. If I could approach and distribute these.

The settlement sheet that's being distributed is an October 1996 loan. The lender is a company called -- was a company; they're no longer in business -- called the United Companies Lending Corporation. The borrower is Gail Floyd who actually is on one of the panels will be speaking. We had thought that they would be speaking first, that she would tell her story. So I'll let her tell the details of that story, but I want to just take you through this. The important thing of her story to remember, there are two highlights of this story that I have tell you in order for you to understand this settlement sheet. First is what Miss Floyd needed was $1500 to buy a furnace. As she'll tell you, the contractor came, said it will cost $2500. She had a thousand; she needed $1500. At the time, she had two mortgages on her home. One was at CoreStates, a 9 percent lone and the other was with Commercial Credit 11 percent loan that she had taken out to do some home repairs. Both of those loans were current at the time. The CoreStates loan was 9 percent, the Commercial Credit loan was 11 percent. Now, again, this was a loan from her standpoint to get $1500 of home improvements, and this is what she got: A lawyer for the title company came to her house -- this is a closing done at her kitchen table, and this is what happened to her.

You'll notice on the front of the settlement sheet that the amount of loan is $33,600. Now, you might wonder as we all would, well, where did the money go? Well, as we can see from the last line, it wasn't cashed to her. She got $20.73. So where did all of this money go? If you turn to the back, the second side of the settlement sheet, and this is known in the trade as a HUD-1. This is basically the road map for where all the money went. You'll notice Line 801, loan origination fee, $3,004. This is known in the trade as points. Now, it's not points that you and I know about, points that actually are paid upfront as a way to bring a fee down. No, these are points that are pure and simple gouges, just ways to take money out of someone's home. We learned in depositions that this company used these points, so-called points, as commissions for its sales representatives. So this is basically like selling mortgages like you would Avon where, you know, the higher the amount of the loan. The higher the commissions to the person selling the loan. So there's this incentive to knock the loan up as high as possible.

If you go down further, you'll see a few other fees, appraisal, credit report fee, $101. I guess it's an expensive credit report.

One of my favorites, $295, a loan fee, as opposed to the other fees. $10, $10, $90 all fees different fees to this lender. And then we get to another large item at Line 811, broker fee, $1,430.

This is by my client Ms. Floyd who you will meet, never hired a broker. She never even knew what a broker was. And in discovery in a case against this company, we learn that this loan officer actually had a staff of signed broker agreement by this particular broker and he would basically slip him some business and essentially slip him some of the homeowner's equity.

If you go down a little further, Line 904, credit life $2,430. Now, this is a life insurance, this is credit life, again, like we don't ever see in the regular world the mortgages. I'm sure you know that for most people that have mortgages every year you get in the mail an offer to get credit life. It's a decision you can make on an annual basis. It adds a little bit to your monthly payment. Well, to say the poor pay more in this case is an understatement. This is a different product only offered to the poor. It's called single-premium credit life. It's a product where you pay up front for the life of the loan a very high premium. A very large portion of that premium is just more commissions to the lender and then this is financed over the course of the 30-year or 25-year loan. This is a product that has no market justification. It is pure and simple a predatory product that is just put in these loans to, again, earn more profits.

And if you go work your way down the sheet, you see, sure enough there's $1500 for a home improvement escrow. Well, at least she got her heater. And then two mortgages being paid off. I forgot to mention to you that this loan was 13 percent. She paid off two lower percent interest mortgages with this loan. She essentially refinanced to a higher rate.

There are examples of these kinds of extraordinary refinancings all over. In North Carolina the most dramatic one being the refinancing of 0 percent Habitat for Humanity loans.

Ira Goldstein mentioned that paying off soft-seconds, just to make sure you understand what that is, often as a way to put subsidy into a new home. We have a so-called soft-second. It's a way that the subsidy can be put on the title so that the person getting a subsidy can't just resell the house immediately and pocket the subsidy. Those soft-seconds disappear after a period of time, often 10 years. Well, more and more we are seeing in the City of Philadelphia people being told to refinance these soft-seconds. In other words, pay off a mortgage that you don't even have to pay. We're seeing people with wrap agreements being told to pay off their water bills. It just goes on and on. The key is, people being fooled in borrowing more money than they want or they need or they ask for.

Now, versions of this transaction that I have shown you have been replicated all over the City as the Reinvestment Fund has begun to quantify, primarily in low-income minority neighborhoods. The particular company that we were looking at just now in the Floyd transaction, this company, UC Lending company which probably most consumers have never heard of, had, according to some of their research done by the Reinvestment Fund, in 1998 a 15 percent market share of all refinancings in black census tracts in this city. There really is in essence an economic apartheid that is being installed here.

In our office alone at Community Legal Services, we are currently representing 70 individual homeowners just from this one company. That's just UC Lending. And there are numerous companies that are selling this so-called credit.

Now, I'm sure you're going to be hearing from the industry that the large fees they're grabbing from unsuspecting consumers are justified by the added risk of making loans to credit repaired homeowners and that action by City Council will have the effect of drying up credit to such borrowers. Now, these really are myths. They're two myths that are the stock and trade of this industry. Look at this loan from Gail Floyd. Where did the higher risk come from? They manufactured the risk. She didn't ask for a

$34,000 loan. She asked for $1500 to buy a heater. The risk of their own creation, and as Ira stated in his testimony, they created loans that are virtually a cinch for either going into foreclosure or having to be refinanced, which is a great thing if you're making all of your money in upfront points. You just keep refinancing until you've sucked out of the equity out of the house.

The other myth that they'll dry up sub-prime credit, there has always been credit available to the poor. I man, I've been doing this work for 25 years. People that needed $1500 for a heater, they could always get it. Sometimes you're right, they would pay more than they should, bt they would pay a high interest rate on what they asked for, the $1500. And that's what's changed.

Certainly we need credit in low-income neighborhoods. Certainly institutions making this credit are entitled to price the credit products in accordance with the real risks that the borrowers present. But what we are dealing with is poison, poison loans that are being sold to unsuspecting trusting homeowners.

I said predatory lending is the equivalent of a public health crisis. I will be more specific. In my judgment, predatory lending is the housing equivalent of the crack cocaine epidemic.

(Applause.)

MR. ACKLESBERG: These loans are poison, they're killing our neighborhoods and it's become big business and we've got to do something about it.

Thank you.

COUNCILWOMAN TASCO: Thank you very much.

(Applause.)

COUNCILWOMAN TASCO: Thank you very much. Certainly, as you were testifying I was thinking that as I look at the chart given to us, it further calls it redlining in the community because what happens, the more foreclosures you have, any credible lending institution will look at that map and say, These people don't pay their bills. And they really become victimized again because the traditional lending agencies don't want to go into that community but, you know, not really understanding that the increase in foreclosures is a result of this predatory lending. So people are continuing to be victimized.

Councilwoman Brown had questions. She had to run. There's a simultaneous meeting going on. And I apologize for that. She'll be back, so don't go away. She has some questions for you. So what we'll do is have the other panel come forth and then we'll call you back for questions by her.

Thank you very much for your testimony.

(Applause.)

COUNCILWOMAN TASCO: Irv, one question I wanted to ask you here. This United Companies Lending Corporation, that was a sub-prime lending corporation or was it -- how were they identified?

MR. ACKLESBERG: They were a sub-prime. And I think that that's -- we're generally, it's important to note that we're generally not talking about the banks. These are not loans being made by the banks. These are loans made by these non-depository financial companies that are called sub-prime. That's the name of the industry. Not all of them are in the business of predatory lending; some of them are. One of them was United Companies Lending, and it recently went bankrupt. But often these companies go under, but the loans, the poison is sort out there. And ironically, what we found is that more and more of these loans are making their way into basically retirement funds, mutual funds. I mean, we've seen these loans even in social choice funds. That's why it's so important, I think, that the bill is seeking to address investment in these sorts of products.

COUNCILWOMAN TASCO: Okay, thank you very much.

(Applause.)

COUNCILWOMAN TASCO: Next we'll have Phyllisa Stiles, Levi Moore, Edna Burgin. Are they here?

(Applause.)

COUNCILWOMAN TASCO: Phyllisa Stiles, Levi Moore and Edna Burgin, come forward, please.

(Witnesses come forward.)

COUNCILWOMAN TASCO: Do we have Gail Floyd, Betty Lefavi, you're here, Umar and Yasmeen El? Why don't we have just everybody come forth and we will take their testimony. And Brittany Richardson.

(Witnesses come forward.)

COUNCILWOMAN TASCO: We can't all get up at the table. We'll call up the three later.

Would you like to proceed with your testimony? Are you Mr. Burgin?

MR. MOORE: Mr. Moore.

COUNCILWOMAN TASCO: Mr. Moore, I'm sorry. Would you speak into the mike and identify yourself for the record.

MR. MOORE: Okay, good morning. My name is Levi Moore, I live at 1246 South 49th Street in Southwest Philadelphia.

COUNCILWOMAN TASCO: You have to speak slowly because I can't hear that fast.

MR. MOORE: Okay, thank you. I'm an ACORN member and a victim of predatory lending. I inherited my house through the death of my mother and owned it free. In April of '98, I was approach by Jim Hollerin (ph), a contractor who offer to do remodel my home, my bedroom, bathrooms and so forth. I had to have a room fixed up for my little girl because I was fighting for custody through a court order for her. So they had sent an investigator out so I had to get that work done. So in the process of time Jim offered to arrange to get the loan for me 'cause I was down from being hurt on my job. I was waiting for things to go through. I was going back and forth to therapy to my doctors and I was, like, had an operation, my back surgery, slipped discs, and I was walking with a limp until I go through therapy. And after Jim kept coming back and forth to convince me what he can do for me because I really need it and I thought was going to do me a great deal until things start rolling for me.

COUNCILWOMAN TASCO: Had you approached him to do the room and then he expanded to do the whole house? Or you approached him or he approached you first?

MR. MOORE: He approached me.

COUNCILWOMAN TASCO: First?

MR. MOORE: Yes.

COUNCILWOMAN TASCO: He's contractor?

MR. MOORE: Right.

COUNCILWOMAN TASCO: You know him personally?

MR. MOORE: Well, during the time that he was coming back and forth, yeah, I got to know him.

COUNCILWOMAN TASCO: Mm-hmm, go ahead.

MR. MOORE: The checks, after making arrangement to get the work done which wasn't completed, the checks that was given to us, me and my wife, one for the bill and one for the contractor, which we only received one check from him and the second check he kept, saying that it was issued to the company that was going to do the work on the house, which we never seen.

During the process of time since he didn't finish the work with this contractor, they left things half done, it wasn't finished. My son had to finish some of it, which my house is still in a wreck right now today and it's not completed and I'm still trying to do the best I can. He took the money forged our name on the check after going through -- his contractor left the house and that's why we seek help through, thank God, for the legal service people who came in and I gave him the contract and they read it over and they told me it what's what.

Now, after finding out what I've done by mistake, not knowing what I was getting involved in, like balloon payment, I didn't know anything about that, fully understanding it. Okay, so the $33,000 that I was supposed to be borrowing to get house done, $29,000 balloon payment for the years and then after paying the balloon payment off, here I'm in a $90,000 debt for a house that I already own, you know. And now -- that's it. And I just thank God for the hearing and ACORN will come in and try to give you more examples.

COUNCILWOMAN TASCO: The contractor secured the loan for you? He contacted the lending institution?

MR. MOORE: He made all the arrangements.

COUNCILWOMAN TASCO: He made all the

arrangements?

MR. MOORE: Right. He carried us to the place. Everything was already set up when we got there. They just gave us a little example of what we had to do and that was it.

COUNCILWOMAN TASCO: So you ended up with a $95,000 loan?

MR. MOORE: I got a $90,000 in debt that I got to pay for a house that was already given to me.

COUNCILWOMAN TASCO: What did you originally think you were borrowing?

MR. MOORE: 33,000.

COUNCILWOMAN TASCO: Thank you very much. We're very sorry about that.

MR. MOORE: Yes.

COUNCILWOMAN TASCO: Who is next? Would you identify yourself for the record?

MS. BURGIN: Good morning. My name is Edna Burgin, I live at 1647 North 59th Street in the Overbrook Section of Philadelphia. And I'm a member of ACORN and I also feel like I'm a victim of predatory lending.

A few years ago, I sold a small house

that was left to me by my family. And I just said at that time I'd been in my neighborhood for almost about 40 years and you know you always have ideas about you want to do things when you get a hold of some money. So I decided that I wanted to get my kitchen done over. I always had dreams of how I wanted to do it and I got three estimates, which is what people usually do until they come across best price.

So I accepted a contract with American Home Concepts. The cost of the kitchen was just about $20,000 short of one or $200. It was a $20,000 contract. I paid them $10,000 in cash, assuming that the balance that I owed them would be on the $10,000. However, shortly after that, without any notice from them, I received a statement from the Associates Company telling me that my total that I would owe was $23,000, which was more than the cost of the kitchen, because as a layman I just figured I'm paying for half of it so my balance monthly should only be on that second half. However, here I am owing more than the kitchen cost in the first place.

And I decided to try to keep my

credit good, which I did have good credit standing by sending them like I think the minimum was like $125 a month, and I was sending them $11 or $12 more a month each month in order to offset the total balance, which was outstanding. In the statement that I would receive monthly never showed where that $11 was going, nor was there anything even in the fine print to show what the interest rate was. And when I finally got through to somebody, they kept passing the buck telling me to hold on, hold on, hold on until I finally got to somebody. And they are reluctantly told me that my interest rate was 17 percent.

My argument is with the fact that the people I contracted with in the first place never notified me when I signed on the bottom line to have the work done and gave them a $10,000 check to start to pay for half of it that I was going to be shifted off to somebody else. I assumed that my contract was with the first people that I paid the money to.

So what happened is, you know, this contractor set my loan up and told me nothing about it, and I just feel like I'm caught in a bind here. I'm 69 years old, and from the looks of things, I'll be paying for this kitchen for the rest of my life. So this legislation would stop contractors from arranging shady loans because they lose business license probably. So I beg you to please support the anti-predatory lending ordinance.

Thank you for your time.

COUNCILWOMAN TASCO: Thank you.

(Applause.)

COUNCILWOMAN TASCO: Thank you very much.

MS. FIELDS: My name is Marion Fields and I bought a duplex in 1998 and my sister co-signed for me. And I was so thrilled that she did this so I had her name put on my deeds also, I was that grateful.

In 1994, I had to have some repairs done. And a friend of mine recommended this particular man that worked for Ford Consumer Finance. I only needed $13,000 to have the repairs done. I explained to the gentleman that I did not want a company -- a balloon and that I wanted a company that would accept my mortgage payments and would include my taxes and my home insurance such as I have always done. I have owned other properties and I never had any problems paying my mortgage. I had a perfect mortgage record.

The day of the settlement, there was another gentleman there from Ford, and this particular man, the contractor -- not the contractor, but the broker. I asked him again, I said, "Now, you sure?" Because he's the one that told me, he said, I owed $38,000 on this property so he suggested that they would pay off the property and then I could get the $13,000 loan. And I said to him, I said, "Are you sure that they will" -- they will -- I forgot what you call it when you pay -- escrow, escrow. And he said, "Don't worry about it. Everything's okay."

I said, "Well, I don't want a balloon either."

He said, "Don't worry about it. Everything is fine. All you have to do is just sign the paper. Just don't worry about it."

So not knowing better, I should have

had a lawyer, but I had never done business with crooks before and I didn't know that such people existed that would do me that way because I was 62 years old. But when the tax time came, I noticed that I had these papers saying that I owed this money and this tax money. When I called him, he was saying, "Oh, yes, you have to pay your taxes."

And I was wondering why the coupons they sent me didn't state how much I would spend for taxes and all, such as my other company.

He said, "You also have a $51,000 balloon that you'll be owing in 14 years."

So I said "Why?" You know, I said, "I told you I didn't... "

He said, "Well, I told you I'd take care of it. But, you see, I was going to get you a Fannie Mae loan. And remember when you said you didn't want to pay high taxes I told you don't worry about it, you know, that this would be at a 10 percent or something like that and I get you with a Fannie Mae for a 7 percent or less.

And I remembered that, and my sister

told him, she said, "Well, you know, I'm retiring next year," according to the time she had put in, not age. "And will you have time to do all of this?" You know, when he said something about getting me a Fannie Mae loan, but he didn't tell me why he was going to get me the Fannie Mae loan, he just said at a lower percentage.

So he said, "Don't worry it. Everything is fine."

Well, I guess I was so stupid when he said that. I thought everything was going my way. I wouldn't have the balloon. I wouldn't have a high mortgage payment and such. But it turned out that everything I asked him, I told him I didn't want, that's what I got. And now I'm 75 -- I'll be 75 next month. I've never been behind in my payment, but I am now and I'm behind in my taxes because I could not pay $670 a month because my Social Security is very small. At the time I was working part-time, but I didn't know that my payments would be that high until I had to pay them. And now I can't pay anything. I have gotten bad credit because I couldn't pay off the things that I owed people. I couldn't pay my taxes. I can't anything because I get -- I have a duplex and I get $450 a month for that duplex and I have to take $220 of my 288 Social Security to put with it in order to pay this loan.

COUNCILWOMAN TASCO: Well, I'm very sorry that all of that has happened. It's very sad and very painful to sit here and listen to the stories and then get questioned as to why we introduced this bill.

Do you have something to say, ma'am?

MS. STILES: Yes. My name is Phyllisa Stiles. I'm her co-signer and I'm also a member of ACORN. And I just wanted to add that since we have signed onto this particular mortgage, it not only affected her credit rating, it has affected my credit rating. We don't have any -- we're unable to get insurances. We were unable to fire insurances. As a result, our taxes are now delinquent $7,000. And when we first got into this balloon, I had A-1 credit and there was no reason for us to go this way. But the broker, which I didn't know personally, but it was brought to us by a mutual friend, had said that the loan that he wanted to do pursue like the Fannie Mae loan, we would have to go this way and after a couple of months he would change us over to the Fannie Mae loan, but that turned out not to be the case. We still have the balloon. The company has changed hands, I believe, three times. And the broker tells us he no longer works for company and he's not -- I'm not really sure what he's doing now. But as a result, my credit is messed up and we have these outstanding things. And please pass the bill.

MS. FIELDS: At that time it was Ford Consumer. Now they go by the name of Associates Equity, Home Equity.

COUNCILWOMAN TASCO: Councilman Rizzo?

COUNCILMAN RIZZO: Thank you.

Obviously, there's going to be a lot of work until we get where we want to be. But I'm hoping that everyone listening, if they're watching today, I don't know. You said that you weren't used to dealing with people that weren't honorable. And I'm hoping that everyone listening realizes that they shouldn't sign anything, shouldn't sign anything without legal guidance or someone that you have --

MS. FIELDS: Yes.

COUNCILMAN RIZZO: The reason I'm bringing this up is this isn't going to happen -- these changes aren't going to happen overnight, and there's many people that this week, next week, the week after could be put into the same situation.

It's interesting when I got the copy of this mortgage, I jested with the Chair and I said, "It looks like the one I just signed." But unfortunately, there are people that have been abused and taken advantage of. And I know that that's what we want to accomplish here. But I'm hoping that everyone listening to my voice won't be schmoosed (ph) by some slick salesperson to say everything's okay. Going forward from today, I would hope that no one signs anything until they're confident. And I would bet ACORN and there's also organizations that would be, hopefully, be able to guide you through the process in the event that you can't afford an attorney, which can be very expensive.

So I think if anything today going

forward until all of this is worked out and we have something that protects people from people that would want to take advantage of us that everyone just slow down, put it on hold until they're really, really confident that they're signing something that's an honorable document.

So I'm very sorry what's occurred here today, and hopefully we'll be able to move forward and do something about this terrible activity.

Thank you.

Thank you, Madam Chair.

COUNCILWOMAN TASCO: Thank you.

And what we plan to do through the task force is certainly continue the education process because it's extremely important that we educate people about predatory lending and the ways they can get into trouble. People want to improve their homes. They want a nice place to live. And sometimes they get into a situation, well, if I ask this question they may think I don't know anything or I feel stupid. But feel stupid. And if you don't feel comfortable, don't do it, don't do it.

(Applause.)

COUNCILWOMAN TASCO: Yes?

MS. LEFAVI: Good afternoon. Thank you very much for listening to my little complaint here. My name is Betty Lefavi. I live at 2028 East Tioga Street. I am one of the victims of predatory lending and a member of ACORN. I owned my home free and clear until Beneficial came into my life.

COUNCILWOMAN TASCO: Would you speak into the mike? Can you lean over, pull up to the table to speak into the mike so we can hear you. We want to hear you.

MS. LEFAVI: All right. I have a little cold so you'll have to excuse me.

COUNCILWOMAN TASCO: Mm-hmm.

MS. LEFAVI: Let me be clear, this is not Beneficial Bank we have heard of, but Beneficial Predatory Lender which claims to save you lots of money, but really it's a scam. I though these people was a branch of Beneficial Bank. I have very good credit, but I couldn't get a bank loan because I only wanted to borrow a small amount of money and they told me I had to borrow at least anywhere from 15,000 up. Now, why would anybody at any age that's on a fixed income would want to go into debt if you cannot, you know, afford?

COUNCILWOMAN TASCO: Who told you you had to borrow 15,000?

MS. LEFAVI: The bank.

COUNCILWOMAN TASCO: The regular bank?

MS. LEFAVI: The regular bank told me I had to borrow for a home equity loan or any kind of a loan, you know, 15,000 and 20 on up. Now, I can't afford it. I cannot go borrow something I cannot afford.

COUNCILWOMAN TASCO: Right.

MS. LEFAVI: All I wanted to do was pay a little Sears loan off for $4200 and it was a total of like $4800. So Beneficial had said, because a little loan with them and it was for a Kirby sweeper. That's how I got involved with these people. And they said, "Oh, you know, we can give you a really good rate." Because they look into your history and what you owe. And I thought what is this great rate? Well, you pay

25 percent. So 13 percent, who isn't going to jump at a deal 13 percent? You're going to say, 13 percent is a whole lot better. Well, here I'm paying more towards this company than I would have Sears. Then when you go in, well, they turn around, "We're going to combine all of your little loans."

No, I have them paid. I don't need to pay four or five years.

So I didn't have -- I didn't combine that. But the one little bill that I had with them, which was 300, it brought me up to $4800. And then when they said come in it was approved and, you know, just sign the paper. Well, you trust them. I asked them, "Well, home equity? I don't want to borrow but a certain amount. "My home be taken from me?"

Oh", no, no, they can't take your home. There's no problem. We can't just take your home."

Here when I read these papers after I signed it -- plus no one sits there in the little booth. Go in there and sign a paper. You trust in these people. They do not explain the length of the loan, which I do not know the length of my loan. They don't explain what you're paying for, this and that.

And when I called them, they said, "Well, if you don't like it, pay it off." Very rude to you.

I said, never again. Never. And if anybody ever went against you, I'll be the first one to protest against you people 'cause you need to lose your business. 'cause you are nothing but dirty, lousy, sneaky people to do this to people. You take their money. You have no respect for the person.

So I said, " That's fine. You sit in your little South Philly home. That's why you got a home like you do because you take it from people like us."

Thank God I'm not a victim as like these people are where it's thousands and thousands. But I have -- I don't trust -- I thought I was streetwise and wise enough that I've been on my own raising my children, that I was smart to these people. But they have you so sewed up and the way they talk, they have you in the envelope and all sealed up. It is so quick.

(Applause.)

MS. LEFAVI: And what do they do? They want to take your home and strip you of your wealth, of anything you have. And they tell you, "Oh, we're you're friend."

Yeah, you're my friend when I sign it, when you stick me in a little glass cage, sign the paper, and then have an attitude. Well, they should be closed up. Maybe if they had their homes taken from them they would know how people all through the country is being treated and they wouldn't like it. This is what should -- these loans should be stopped. We shouldn't have to pay. And then when they don't have no job or money, they'll know how the little person feels. And we can "patooy" spit on them like they spitting on us.

(Applause.)

MS. LEFAVI: Thank you very much. I hope that the bill will be passed. And I appreciate for you to listen to the complaint. So if you would like to see this kind of junk that I have found in this paper that they are telling you you cannot switch and if you don't abide by their law they'll automatically take your home and in this little clause that I have. And they're now a mortgage company. It's not a loan company, this is a mortgage company. I didn't know they had a license to be a mortgage company.

COUNCILWOMAN TASCO: Have you talked to the Community Legal Services?

MS. LEFAVI: No, I didn't 'cause when they gave me the check, it was sent out, what could I do? But they don't sit down and speak to us people and say "This is what you pay for. This is your insurance."

I wasn't stupid enough to take their insurance. They call you back and say "Oh, we're sending you checks and, well, we want to refinance it."

Don't do me no favors.

"We'll save you money, we'll pay you twice a month."

You ain't saving me money. You pocketing in and you ain't getting on me the second time. One time lightning hit me. I ain't going for the second strike.

MS. FIELDS: I would like to say that the mortgage they paid off for me was $38,000. I received $13,000 of that money and the $7,000 I guess went for them. In other words, I owe 20,000 and I only needed 13,000. Then I was told I really didn't need that much because the guy cheated on me. The man that worked for the compete is the one that suggested the contractor that I have.

COUNCILWOMAN TASCO: Thank you all very much. We appreciate it.

MS. LEFAVI: Thank you very much for your time.

(Applause.)

COUNCILWOMAN TASCO: Miss Ruth Gaskins and Tanya Jones.

MS. FLOYD: Excuse me, my name is Gail Floyd and I am the one that you had the paper on the floor for the loan.

COUNCILWOMAN TASCO: Oh, okay. I'm sorry. Gail.

MS. FLOYD: Yes.

COUNCILWOMAN TASCO: The other two

can still come up to the table.

Is Brittany Richardson here?

MS. RICHARDSON: Yes.

COUNCILWOMAN TASCO: Come on up, too.

MS. FLOYD: Good afternoon. My name is Gail Floyd. I bought a house in June 1991. I paid $17,000 and had a mortgage with CoreState Bank. The interest on the mortgage was around 9 percent. My mortgage payments was $143 a month.

In 1996, I got a home improvement loan from the Mellon Bank for $8,400. The interest rate on the second mortgage was 11 percent. My payments was $182 a month.

That same year, I ended up with a $34,000 mortgage loan from a company called UC Lending. I did not need this mortgage and I never asked for it. It was only one year later after I got help from the Community Legal Service that I realized how badly I was taken advantage by that company.

It started when I agreed to have a contractor put a gas heater in my home. The cost of job was 2500, and I had $1,000 of my own money. So the contractor said he would get me a loan for the 1500 I was short.

UC Lender called me and told me that I was approved for the loan and for the heater and that they would send a lawyer out to my house to have me sign papers. They told me the loan was going to be paid off by existing mortgage and that it would be a good idea to consolidate everything together.

I didn't realize that my -- I didn't realize that they were refinancing my existing mortgage to a higher rate, and I certainly didn't ask them to do that.

I also didn't realize and no one explained to me that the mortgage contained a $9,000 in fee an charges that I was now going to have to pay 25 years of interest on. There was a large broker fee to a company I never heard and never heard of. There was a 2400 credit life insurance premium I certainly did not ask for and since I already had life insurance from my job.

The payment from UC Lender Mortgage was -- they have here 403, but I was paying them $455 a month. I can't afford this payment, and my house is now in foreclosure procedures.

I am grateful that I'm able to -- to Community Legal Services. Dealing with UC lender, what happened to me was I needed a heater for my house and I thought that the gas company could do it, but the gas company don't do that anymore.

COUNCILWOMAN TASCO: Mm-mmm.

MS. FLOYD: So I was told you have to go through the yellow pages in order to get the parts and the pieces. And through that, what happened to me is how I wound up with UC Lender because, like I said, I had $1,000 of my own money but the other 1500 I didn't have.

They are fast talkers. They did come to me talking fast. Like I said, I only needed the $1500. But like I said, on the paper that you have in front of you, I never realized. When I did contact them, no one called me back to explain to me because I thought that my mortgage payments should have went down. But after I lost my job, found out that they were calling me five times a day, wanted the money. Then I got a phone call wanted to know from UC Lending I could get another mortgage, another loan, did I want to borrow some more money from them. They're rotten.

COUNCILWOMAN TASCO: Thank you very much.

MS. FLOYD: Thank you.

(Applause.)

COUNCILWOMAN TASCO: Whose next?

MS. EL: My name is Yasmeen El and I live in South Philly and I'm a member of ACORN and a victim of predatory lending. I'm on a fixed income and I receive a widow's pension.

I never asked for a loan. But I got a check in the mail for $4,000.

COUNCILWOMAN TASCO: For a thousand?

MS. EL: $4,006, some-odd cents. I wasn't even sure it was a check, but didn't say "This is not a check" or "non-negotiable," so I asked my son, I said, "Is this a check and real?"

He said, "It looks real to me."

So I just put it up for a while and I kept it a couple weeks. And in the meantime, I needed some major work on a roof. My kitchen, it's not shed kitchen, but it's, you know, separate from the house and the roof, you could see outside. And, of course, any time it rained, the water would seek its own level and it was ruining the walls and the kitchen floor. And I just kind of got tired of that. So I said, I'm going to find out if this is really a check. So I deposited the check and it cleared. So I said, "wow." I saw on the back, there was, you know, arrangements and things that I will have to do so I said, okay, I signed that. I'll pay them back.

As soon as the check -- the reason I found out the check cleared is they called me. Household Finance called me and told me they saw that I had cashed their check, they would need some additional papers signed, that I should come into their office and sign these papers.

Well, that sounded reasonable. All I had done was cash their check, you know, so I figured I needed additional papers.

I went into the office and I was told at that time that I had $522 more available to me if I wanted it. I told them no, I didn't want more money. The arrangements I had made were fine. So the guy says, "Well, I see you just turned 60, so you need this credit life insurance. You must have it."

So I said, "Okay, if I have to have it, I'll write" -- and I was going to write him a check for this amount because I hadn't spent any of this money at that time.

He says, "No, it has to be included in the loan. We'll take care of it."

So he comes in with the papers. You know, I'm figuring I'm signing for $4,000 which would be repaid to the amount of $6,000 and some-odd dollars.

I go home. I have the repairs done. I received a letter in the mail the following week thanking me for payment in full. So I'm like, you know, these people are confused and I pay it no mind.

Two days later I get a -- it's not a coupon exactly, but it's the bill where you send the top part to them, and the payment amount is more than it's supposed to be. So I'm looking at it and I go and get this letter and I look and I happen to notice that the letter, the payment in full has one, has number on it and the payment slip has another number. They took the $4,000 loan and refinanced it so I now owe them over $8,000.

I never got another dime. They gave me a credit insurance policy I didn't need, doesn't do anything for me. I mean, it doesn't benefit me in any way. And because the payments are more than I expected, I have fallen behind. They're calling me three, four times a day; four, five days a week, Sundays. I'm really afraid that I'm going to lose my house.

Oh, by the way, my percentage rate was 27.4. So I'm worried about these exorbitant rates and methods used to bring customers in to refinance. These methods or killing our neighborhoods and impacting thousands of people. And I urge you to support this bill that fights predatory lending.

Thank you.

COUNCILWOMAN TASCO: Thank you.

(Applause.)

COUNCILWOMAN TASCO: When you signed the papers for the -- when you signed the papers for the life insurance and/or the $4,000, did you sign additional papers for the $4,000?

MS. EL: No. See, it was presented to me like it was the papers for the $4,000.

COUNCILWOMAN TASCO: So when you signed the check, you in essence had signed for the $4,000?

MS. EL: I had signed for the $4,000.

COUNCILWOMAN TASCO: So when you signed the second set of papers, you were signing for another $4,000.

MS. EL: Yes.

COUNCILWOMAN TASCO: That's what happened.

Thank you very much. We're very sorry.

Next?

MS. RICHARDSON: My name is Dorothy Richardson, aka, Brittany Richardson. I want to my story.

On December 19, 1988, I purchased a mortgage from GMAC to buy property, and the payment was $241.41. That was approximately 12 years ago. In 12 years, I had paid the mortgage payment on time without error or complication.

In 1999, I received a letter from

Aurora for foreclosure.

COUNCILWOMAN TASCO: From where, you received a letter from where?

MS. RICHARDSON: Aurora Loan. And I'm going to try to explain it quickly.

GMAC was mortgage company number one. On October 20, 1992, a letter from Platt Valley stated that they had recently acquire the rights to service my mortgage, and the payment was 298. Platt Valley was a second mortgage company.

On October 16, 1996, Source One sent a notice of transfer of servicing rights. They wrote to inform me that they had purchased the service rights on my loan for the mortgage. Source One was mortgage company number three, and the correct mortgage was 298; they charged me 313.

January 24, 1998, I was notified that the servicing of my mortgage loan had been transferred to Aurora and the amount was increased. Aurora Mortgage was mortgage company number four.

So this is four different mortgage companies and the issues are the transfer of the loan and the increase in the payment. Also the prior company didn't issue a refund and also they did not send the escrow payment from mortgage company to mortgage company, okay.

My question is, could I have just said to the new service company, I would rather deal with GMAC, the first mortgage company? However, I didn't have the knowledge or education of dealing with the mortgage company after they transferred me. I didn't -- I wasn't knowledgeable about the transfer. The language wasn't clear. And so on the other hand, I feel as though, you know, this was a trick. But anyway, nevertheless, in 1994, I refinanced my loan with Platt Valley thinking this was a legitimate mortgage company.

Okay, so after I refinanced with Platt Valley, here comes another mortgage company Source One, and that's when the problems started.

During the transfer of the mortgage payment, they did not forward the escrow account from the prior year of 1998 to Aurora Loan. Source One had also owed my account a refund. Okay, let me try to cut through this.

Okay, so they raised the monthly payment and I continued to pay. But because the prior mortgage company did not send the escrow payment, the current mortgage company said, we're going to raise your payments for this mortgage payment, but the escrow account was supposed to have come from the prior mortgage company. So they raised my payments.

So I said to them, "I'm not liable to pay $50 more a month on my mortgage, it's the prior mortgage company."

So I just -- let me see. Now I'm facing foreclosure because of the prior mortgage company. So to sum up -- to sum up, I have been paying my mortgage to Aurora, but they have been sending the payments back. They're saying now I owe legal fees, attorney fees. For what? We haven't gone to court. So now I'm in foreclosure because of the prior mortgage company not paying my escrow. That's about it.

COUNCILWOMAN TASCO: Have you talked to the Community Legal Services?

MS. RICHARDSON: Yes. I'm with Community Legal. They're handling my case. And

I'm also with Urban League.

COUNCILWOMAN TASCO: Thank you very much.

MS. RICHARDSON: You're welcome.

COUNCILWOMAN TASCO: Ruth?

MS. GASKINS: Good afternoon. My name is Ruth Gaskins, and I'm the Director of Housing for the Philadelphia Urban League.

We have been involved with working with borrowers who have been affected by the predatory lenders for a long time. The story that we're going to talk about today is not one that we can probably do the same, fill this Council room with horror stories and people that are losing their homes in different areas of the City purposely targeted by these different tactics. The one that we're going to tell today, Tanya Jones and myself, is a story about a person who really -- and I have her permission to say this -- was not creditworthy at the time of the loan. There was no prudent underwriting done. She did not have enough funds to close, and a host of other things. But dealing with a very gifted shyster and a person who had the gift of gab, got her involved in this situation.

This story is one of those success stories because this young lady went to Councilwoman Blackwell's office, and she in turn referred her to the Urban League. I'll let her tell the story and I'll come back and talk how working together, I think, that we can really do something along with that bill to curb predatory lending. This is Tanya Jones.

COUNCILWOMAN TASCO: Thank you. Tanya identify yourself for the record, please.

MS. JONES: Good afternoon. My name is Tanya Jones. I live at 56th and Market Street. Basically, I was referred to this particular mortgage company through a friend of mine. I gave them an initial call and they asked me for all of my, you know, my name, my address and my Social Security number, and they told me they would call me back in a couple of days. So they did, they call me back within like two days. They told me I was pre-approved even though they ran my credit and that I could start looking for a house.

When I initially looked for houses, I

didn't see anything I liked, so I put it off. That was in February. In August, I got back in contact with them again and they reran my credit. Everything was still the same on my credit and they still said that I was approved. I was approved for $65,000, pre-approved. So they also told me they had just recently acquired the license to have a real estate agency. So now they are actually showing houses.

By the next day, they told me that they had a house. The secretary at the mortgage company told me they had a house that I could possibly look at, That I could meet the real estate agency at that house.

So that weekend, I went to the house. I went to the house. I looked at it. He told me that the house was going for $70,000. Well, I made a offer of 65,000. He also said that the seller was requesting $1,000 down for all serious buyers. So that was no problem. I did have $1,000. So I wrote out a check for $1,000 and then I went into the mortgage company, met with them about the house. They were still waiting for the lady who was selling the house to come back from her vacation or wherever she was.

So when she came back, she accepted my offer. They explained to me that what the repairs was that she was going to do in the house. So we set a date for September 29, 2000. Every week I would talk to them. They will call me and let me know everything was going fine.

About a week, maybe about two weeks after I agreed to buy the house, they told me I needed an appraisal on the house, so I wrote out another check for $250. So after I wrote the check and they went through the appraisal. They said everything was fine. I never got any paperwork about this appraisal. They just said it was done. You know, I asked them was the appraisal done? What happened? They said it was done, don't worry about. It everything is fine.

So I had -- I knew I was going to be short a couple of hundred dollars. I asked one of my family members would they be able to lend it to me. About three days before settlement, they called me told me they couldn't get a hold of the money. So I called the mortgage company and asked them even though I know that once the date is set, that you can't change it. But I asked them could we move it back a week because I actually was getting paid the following week. Could we please move it back a week.

So they said, Well, you're going to have to try to get the money because you signed this agreement of sale. So either you're going to have to get the money or you're going to lose the money and the house.

So, of course, I started paying again 'cause now I'm out $1250 that I can't afford to just give away. So I called Councilwoman Blackwell's office. I also faxed her like a brief summary of what was going on. Asking them for help to either get this date pushed back, get my money back or some kind of way to help me.

So when I talked to one of the representatives out of her office, she asked me about the letter and I spoke with her again. I think Miss Hayes. So she told me to get in contact with the Urban League of Philadelphia, which is how I got in contact with Miss Gaskins.

When I spoke to Miss Gaskins, she asked me what my settlement date was. She told me to bring in all information, my pay stubs, my credit report, any paperwork I had from the mortgage company.

When I went to her office that same day, she looked at the papers and she said "Do you really want this house?"

And I said, "Yeah, I really want this house. This house is perfect. I like the neighborhood and, you know, this is what I wanted. This would be perfect."

So after sitting down with her and she asked me a couple questions about some of the information that was on the forms like the late charges, the percentage rate. She was explaining to me -- she asked me did I really know what they mean. And I told her, no, I didn't really know what it meant and I was going to ask questions about it, so she was explaining it to me. So she decided, well, let me call the mortgage broker and we were on a conference call. So she introduced herself to who she was and told them I was there, that she had permission to talk to them from me and could they explain some of the charges that was on there that she couldn't explain it.

Well, it boiled down to us being on the phone with the mortgage broker, the actual lender for almost four hours in her office, back and forth she's asking, well, what is this charge? Well, what is that? Why is this this way? Why didn't you send her this?

Well, at one point, the mortgage broker told her "Well, she doesn't have the right papers. They're not the right papers."

So she said, "Well, what do you mean she doesn't have the right papers? Why doesn't she have the right papers?"

No one told me that they were the wrong papers. So it went back and forth about the charges and the papers.

When she called down to the actual lender, first we was on the phone for about 20 minutes just sitting there waiting for somebody to pick up because nobody -- they said, "Well, we don't know who handles the loan. Nobody personally speaks with the borrower.

So she said, "Well, somebody has to have a record of who this woman is. How are you lending her money and yet you don't have nobody to talk to?"

So finally a man got on the phone and first thing, you know, she introduced herself again. Her first question was about a letter of introduction, I think it was.

MS. GASKINS: The APR at this point. What happened, it just got to be four hours -- thank you, Jannie -- of work with this whole thing, but it was rewarding because we had a successful end to it.

What happened was simply this: By the time we got through to the broker who was giving us one story. And the broker was telling us that she had the wrong documents. I said, "Fine. Send met correct ones."

Of course, he would not do that. And I questioned the dates because everything was done within days of one another and I was getting dates on documents that was dated 9/14. It was the issuing date. However, her signature was 9/6 and then there was a question about whether it was her signature or whether it was forged, not to mention they could not explain what each charge was about.

This young lady is looking for $800 in order to close the deal; however, they had it listed that she was going to put $19,600 down. They approved her for a mortgage which was 70 percent of her gross monthly income. The principal and the interest on this particular loan would have 57 percent of her gross monthly income. We're not talking about taxes and insurance now. We're talking P and I only, not to mention how they were trying to convince her that we have a second loan that's going to take care of all of this.

I said, "Well, please explain it to me. I don't understand it. I'd love to explain it to her."

"Well, you have to listen."

I said, "Well, being a former banker and underwriter, maybe I'll understand it. Take your time, break it down so that we both know what talking about."

Well, the story just one of those crazy stories. We're going to give her 13.6 and a 22 percent loan.

I said, "How she supposed to pay it?"

"Oh, wait, there's grants."

"Well, who's giving these grants?"

And it went on and on and on. We, of course got the lender. And after all of this time that she was telling me, we finally got a gentleman from lending department who assured me that they deal with these brokers. And I said, "What about prudent underwriting? You know, how do you purchase a loan without taking a look at it?" I don't care what you do, how do you purchase anything without making sure, one, that the borrower can support this debt. Two, this young lady had a serious credit problem. I want to understand your underwriting guidelines here."

Of course, they were unable to explain that to us. And all the time we kept her on, I kept her on. We were on a conference call so I wanted to make sure that what we're talking about that she was being educated and she had an opportunity to see just how gifted they are in persuading you to do something when you know you do not have the ability to do it and that you're being set up for a failure.

So we went on and, of course, the thing got ugly, but he was afraid because we -- I had to use Councilwoman Blackwell's name a little bit here. I said, "Look, this young lady walked in my office. I had never seen her before. She was referred to me by Councilwoman Blackwell's office and I will make a report as to what you're trying to do here. The settlement is schedule for tomorrow. I advise you not to penalize her, to return every dime, and I in turn will only give a cursive review. Otherwise, I'm giving the full story and I assure you, you will hear from her."

Well, the truth of the matter is we had to -- Councilwoman Blackwell had her attorney to write. And after we got the letters, of course, the success is is that she was refunded all of her money.

(Applause.)

COUNCILWOMAN TASCO: Thank you very much.

MS. GASKINS: The need for some bill, any bill if this is not the bill, a bill is what we're trying to do. I've had the privilege of working with the group in order to write something up for you. I hope you will seriously consider it.

There is an immediate need in the meantime, I think, and that is for the news media to do and out and out blitz just like they're doing in trying to persuade you to take these loans, to tell everybody to be on guard, be careful and to seek counseling from anybody, I don't care who it is, understand the transaction before you enter into it. Thank you.

COUNCILWOMAN TASCO: Thank you all very much.

(Applause.)

COUNCILWOMAN TASCO: Irv Acklesberg, we'd would like for you to come back. Councilwoman Blondell Reynolds Brown has some questions.

And next we're going to hear from the lending community, those people who have asked to testify.

The Chair recognizes Councilwoman Blondell Reynolds Brown.

COUNCILWOMAN BROWN: Good morning --

good afternoon.

MR. ACKLESBERG: Good afternoon.

COUNCILWOMAN BROWN: Could I also please ask Carol Hemingway, I have a couple questions for you as well. Thank you very much.

You shared with us the settlement statement, did you not?

MR. ACKLESBERG: Yes.

COUNCILWOMAN BROWN: And you highlighted a number of lines on the back, and I asterisked them in an attempt to determine what institution would be responsible for that requested dollar amount. In the testimony provided by your colleague, Ira Goldstein, a number of parties on the other side have been mentioned. Based on this statement that you shared with us, what parties do we need to be aware of as we go down this statement to examine the big picture around this issue? I mean, you mentioned an insurance allocation. So the insurance industry. I just want to get a handle on who are all the other parties on the other side of this issue.

MR. ACKLESBERG: Most of the fees in

this particular transaction were fees that went directly to the lender. See, one of the things that's unique to this kind of lending is that -- you know, when we think about people getting ripped off on loans, we tend to be thinking about rates, are you paying a high rate, a high interest rate. In this kind of lending, rate is not where the action is. The action is in up-front fees and charges that get loaded into the transaction. These are all companies that are intending to unload the loan immediately. They're looking to sell the loan off. And by loading a lot of their fees into the loan, they're able, in effect, to recognize some profit instantly.

It also means that unlike a regular loan where a lender has an incentive that the person actually be able to make the loan, in these cases, our feeling is that the incentive really is that to just do it again since most of the profits are being made on these up-front fees. So the more you can put someone through these transactions time and again, the more fees you're able to charge. It's actually like equity getting gradually sucked out of house.

Now, in this particular transaction, most of the fees are to the lender itself. Then you have at Line 811 the broker fee. That's not the lender. That is to, you know, an independent operator called the broker. In these cases, this is really just points going to someone other than lender. It's just more sort of a percentage of loan being loaded into the loan. This is not like when we think of brokers, you know, it's someone you hire to get you -- to shop for you to get you the best deal. This is really just something totally different. This is just points, these sort of sales commissions being paid to a referring broker.

In this case, what happened, I believe, was that the contractor had a relationship with the broker. The contractor needed to find a loan for Miss Floyd, so the contractor called up a broker who in turn had a relationship with this lender.

The company would ordinarily, they say, charge 10 points, but when they had a middle-man broker involved, they would up it 15 points. Again, remember, she never even hired this broker. He was just brought in by the contractor. So then the broker and the lender would basically just decide how the fees would be split, and this settlement sheet shows what they came up with.

COUNCILWOMAN BROWN: Would it be fair to say then that those professionals you just mentioned become the indirect beneficiaries of this transaction?

MR. ACKLESBERG: Well, I would say they're direct beneficiaries because once a loan is closed, they get a check for whatever percentage they've been promised.

The credit life charge, which is very large, that $2400 that's down at Line 904. That's a product that is sold by the lenders acting almost like insurance agents for a company. In some cases, the insurance companies are actually just another division of the same company.

Often, in this particular case, I believe that they sold credit life that was actually sold by an insurance company that was a part of the same company. But whether or not they're affiliates or not, the commissions that the lender gets for selling this product are huge, anywhere from 30 to 50 percent of the premium.

So let's say some company out there is selling this rip-off insurance. They'll get a lender to sell it and then the lender gets a very large commission for doing it. And it's a product that no one in their right mind, if they understood what they were getting, would do.

COUNCILWOMAN BROWN: Let me ask another question. There are normal settlement transactions where X professionals are a part of the transaction and it's a business transaction so in the best scenario both parties win. This transaction is viewed in every way as unfair and wrong. Are there any additional professionals that come into play with this transaction versus a so-called normal settlement transaction?

MR. ACKLEBERG: Well, I wouldn't say that it's distinguished from a normal one. I would say if look here, you can see that on Line -- well, first of all, there's an appraiser up at line 803. In most of these loans, the appraisals are way out of whack. There's tremendous incentive to jack the value up as high as possible in order to get the loan as high as possible in order to get the up-front fees that are based on a percentage of the loan. So you have appraisers. You have the brokers that I mentioned them. They're bird dogs for these lenders. Then you'll notice at line 1107 there's actually a law firm mentioned. That would have been a lawyer that came to her house, hired by -- working for a title company that had been hired by a lender to do the closing. So a lawyer actually would get the signatures. The brokers usually don't attend, as was mentioned before, the Brokers don't like be in a position where they have to answer any questions so often the brokers won't be there. Often the lenders won't be there. You'll have a title company sometimes represented by a lawyer who has no idea where this loan came from. It really isn't their -- their function isn't to advise the borrower; their function is to get documents signed for the lender.

COUNCILWOMAN BROWN: So in terms of identifying the parties on the other side, 'cause I want to get a real handle, the parties on the other side of this equation. You've mentioned brokers. You've mentioned bankers. You've mentioned the insurance industry, attorneys. Any other additional persons as we look at the big picture?

MR. ACKLESBERG: I would say in terms of what the City can do, the key players are the people that are the gatekeepers for this, the people that are putting people into the system which would be -- and these are people with business privilege licenses in the City of Philadelphia like contractors and brokers. You also have the title companies that are doing these deals for a fee for the lenders, and they might with the legislation proposed have to look at these things with a little more critically.

I mean, some title company looked at this closing statement that we all looked at in this hearing today, and I would submit that just on its face, it's pretty apparent that this person's getting ripped off. Again, it went through title insurance, a lawyer present at the closing, and this is all just hundreds of this probably happening every month in the City of Philadelphia.

COUNCILWOMAN BROWN: Thank you, sir.

Good afternoon. How are you?

MS. HEMINGWAY: How are you?

COUNCILWOMAN BROWN: I would like for you to answer two questions. One, ACORN represents a range of issues all in the area of housing. The first question is, where does this issue stack in terms of frequency, if you will? When you look at all of the types of housing issues that ACORN confronts on an annual basis or a daily basis, how often does this one come before you? If you have to attach a percentage to it compared to other issues that ACORN deals with, where would it fall?

MS. HEMINGWAY: Well, I think the fact that because this issue has been identified, issues that ACORN deals with are issues that are identified by our membership who usually who are suffering from this kind of problem.

COUNCILWOMAN BROWN: Sure.

MS. HEMINGWAY: And people started coming in, our members started coming in and saying, "I'm having this --" they were being referred to housing counseling session because they said they had a housing issue. And then the housing counseling said, who traditionally had been dealing with helping people to obtain home mortgages because they were buying a home, these were people that already had a mortgage, already owned their home that were talking about refinancing or because they, as I said in my previous testimony, wanted to get a home repair and now were being faced if foreclosures started being identified. So what happened was, it became a very much re-identified -- this is being very much need issue as something that we needed to do start paying more and more attention to because more and more people were coming in with this problem.

COUNCILWOMAN BROWN: Okay, so this issue was beginning to supercede your initial mission, which is to help low-income, moderate-income folk acquire housing?

MS. HEMINGWAY: Right.

COUNCILWOMAN BROWN: At what time did

you begin to see this, a year ago, 24 months ago, just to get a handle on the escalation of the problem?

MS. HEMINGWAY: I think the problem started to be identified for us, like, about four or five years ago. And it just started escalating more and more. People started coming forward. Because we do this kind hands-on neighborhood contact kind of thing with people in the community because we're knocking on doors and people know that they can come to ACORN around this kind of thing, somebody would tell somebody else and they said, "Yes, go to this agency because they will help you with this problem." We started seeing it more and more, then we realized we had to do more things about and it just became a balloon. And as has been testified before, we're here in Philadelphia. This is a national problem, okay? For us, because we're from Philadelphia and it is what we see is hurting our community so bad, we are talking about it today,, but do not be mistaken, this is definitely a national issue.

COUNCILWOMAN BROWN: Final question.

Mr. Goldstein provided for us a graph that speaks to the frequency of this issue citywide. If you had to draw a profile of the type of individual that comes in with this as a burden, what would this person look like in terms of gender, age, color? Paint a profile for us of the average person that comes with this issue because Councilwoman Tasco presented what I believe very credible witnesses today. Most of them look like me, female and black. So what -- is that the average, if you will, of individuals who come in burdened b by this issue?

MS. HEMINGWAY: This is definitely an issue that it can be associated with low-income minority neighborhoods, okay? Female heads of household, the elderly. So when you talk about drawing a profile, I think one of the things that we need to look at is the profile that fits low-income communities, okay? Who are the people that live there, the concentration of the issues which is in certain locations that are attacked.

Like I said, I'm from South Philadelphia and I live on Tasker Street. The area that I'm around is -- I cannot testify what happens in South Philadelphia across Broad Street, but I can sure tell you what's happening on my side in my community in terms of the people that come to my door that's asking me to take on these loans. And my neighborhood looks like me, okay, that are people of color. And statistically, what we found out in ACORN is that these are the neighborhoods that's being attacked, low-income, African-American, people of color, a lot of females, and certainly the elderly.

COUNCILWOMAN BROWN: On that final --

MR. ACKLESBERG: On that point --

COUNCILWOMAN BROWN: Please.

MR. ACKLESBERG: On that point, it certainly -- what Carol has testified is certainly consistent with what we have seen. It is primarily female African-American senior citizens. Remember that these companies are looking for equity. And they want -- they're looking for neighborhoods where people either own their homes free and clear or have paid down their mortgages substantially. I think that's why you are seeing lots of senior citizens, but also because the senior citizens tend to be more vulnerable and more trusting.

COUNCILWOMAN BROWN: Somewhere in the testimony I've read a number of organizations that have come together and formed a coalition. I do not see the Philadelphia Office of Aging. Since that is a constituency that is adversely affected, have they been reached out to, has there been any dialogue to engage them since the world they represent, which are senior citizens, are most adversely affected? I'm curious.

MS. HEMINGWAY: I cannot speak to that.

MR. ACKLESBERG: I'll just say nationally, besides legal service lawyers and consumer advocates and other very, very vocal organization has been AARP on a national front.

COUNCILWOMAN BROWN: Very well. Thank you both.

I have do have a question for Mr. Ira Goldstein. Is he still here?

COUNCILWOMAN TASCO: Irv, don't leave. Councilman Rizzo has -- come on, Mr. Goldstein. Councilman Rizzo has a question.

(Witness comes forward.)

COUNCILWOMAN TASCO: Go ahead.

COUNCILMAN RIZZO: Some of the horror stories that we heard today are just troubling me. Have any of these charges, any of these accusations ever been brought to the District Attorney for criminal prostitution? Because it sounds like they're right on the line based on the alleged stories that you've told us today.

MR. ACKLESBERG: The only case that I'm familiar with, and I would say as a general matter first, it's over the years as a consumer lawyer, I mean, we see -- we see activity that I would regard as criminal all the time. It is not easy to get District Attorney's Office involved in these sorts of crimes as a general matter. Occasionally, we will through persistence be able to get them to take one of these cases.

You heard this morning -- we've had a success in one case. You heard this morning from Mr. Levi Moore who talked about he mentioned a contractor who came and fooled him into a loan and then ran away with the proceeds before the work was done on the deal. That contractor has in fact been arrested and is facing charges but, you know, we just got in the past two weeks just four cases alone from that contractor. We now have in our office -- the first story that was described where a guy sets up a loan, he's a contractor. By the way, he now is a licensed broker.

(Laughter.)

MR. ACKLESBERG: He now has a license to steal. He -- I'm not sure the county. I think it's ten or twelve cases just in our office involving this contractor where stole all the proceeds for the loan and ended up with mostly senior citizens who are now facing foreclosure. That case is going to trial, but that's the only case I'm aware of where the District Attorney has made an arrest.

COUNCILMAN RIZZO: Counselor, after today's hearing, I'm sure the District Attorney's Office is monitoring this very closely, I would hope that there be a real serious effort to put some of these people in jail. That's where I'd like to see some of these people go.

(Applause.)

COUNCILMAN RIZZO: I've said what I've said. But also, some of the bad guys and girls are out hiding in the bushes. There are a lot of honorable people that are probably here today because they don't want to be painted with the same brush as some of these folks that we're discussing, the ones I want to put in jail. So I think in all fairness, we have to protect the people that do this for a living that do it honorably and help people.

MR. ACKLESBERG: I couldn't agree with you more.

COUNCILMAN RIZZO: And help people. Because I think so it's better to be told no and work something else out than be lead to the slaughter.

(Applause.)

COUNCILMAN RIZZO: Thank you, Madam Chair.

COUNCILWOMAN BROWN: Mr. Goldstein, your testimony for me was quite informative and instructive.

MR. GOLDSTEIN: Thank you.

COUNCILWOMAN BROWN: In it you've

mentioned a number of facts, trends, and characteristics. Councilman Rizzo discussed one avenue for a remedy. Have these facts, these trends, these characteristics been shared either formally or informally with the parties on the other side of the equation?

MR. GOLDSTEIN: Part of the research process has been to gather information with the trade associations, with the brokers themselves, with title people, with people who are involved not from the borrowing side but from the lending and facilitating side. And some of the things that I described in my testimony literally were told to us by people on that side of the fence. And we approached this by saying we were not going to get a full and complete picture unless we understood sort of the supply side of this credit. So everything in here has been shared and will be continued to be shared going forward as we come to closure on the research.

COUNCILWOMAN BROWN: I sort of view that as Step 1. Step 2 is discussion of remedies or a way to fix the problem. Has that happened as of yet with the parties, again, who can most make a difference in fixing this?

MR. GOLDSTEIN: We're more in the sort of information-gathering phase, but I will say that we've had discussions with various associations involving brokers and mortgage bankers to discuss issues about raising threshold for entrance into that profession, making it a little difficult to get the license and hold the license so that there are real meaningful continuing education sorts of things and real enforcement for those who are acting in an unethical and an illegal manner. And presumably, some of the people that we've spoken with are here today and you'll hear from them on that very same topic.

COUNCILWOMAN BROWN: Please.

MS. HEMINGWAY: I would also like to address that in terms of part of some of the work that we do at ACORN hasn't only been with the victims of predatory lending, we have also spoken to some of the lenders. Personally, I've been involved in meetings with some of the biggest lenders in this country that are involved in sub-prime lending and certainly do some of the practices that we talk about that are predatory practices to have them look at how they go about doing business and also with suggestions ACORN has certainly came up with suggestions about changing some of those things. A lot of lenders have said "Oh, yes, these things are bad. I do three, but I don't do the other two so I'm not all bad."

Other lenders have -- one of the lenders, and I will talk about them, AmeriQuest who is one of the largest lenders in this country, sub-prime lenders, has taken on changing some of the ways that they have done business. Actually, they are up now to do a pilot program here in Philadelphia that will address some of the very factors that make these practices predatory.

So what I'm saying is that I think the Industry itself is looking at this, but the whole problem with that is that we don't feel no changes down in my community, okay? So until that happens, I think that the pressure has to be on them. And certainly, Philadelphia is in a position to say, "Not here you will not do that."

And so I think that that's the important issue that this bill will send out that message.

COUNCILWOMAN BROWN: Thank you.

Finally, Mr. Goldstein, on Page 3 of your testimony, the second paragraph, you mentioned that -- you had mentioned that you are conducting interviews and you mentioned a number of parties here.

MR. GOLDSTEIN: Yes.

COUNCILWOMAN BROWN: Borrowers, lenders, brokers, title and settlement attorneys, appraisers, trade associations, and state regulators. What's the status of that? I mean, what's the status?

MR. GOLDSTEIN: All of these representatives of each of these groups have in fact already been interviewed.

COUNCILWOMAN BROWN: And so the next step is --

MR. GOLDSTEIN: To write it up into a report and incorporate probably a develop set of recommendations and things like that which we believe, you know, will sort of poke into the various places that this is a problem.

COUNCILWOMAN BROWN: Are you at liberty to say when that report might be finished?

MR. GOLDSTEIN: I would say probably within the next 30 to 60 days, for sure.

COUNCILWOMAN BROWN: Thank you very much.

Thank you, Madam Chair.

COUNCILWOMAN TASCO: Thank you.

Before you leave the table, I'm looking at this form that I think you said Miss Floyd signed, this fee. This has U.S. Department of Housing and Urban Development. She was seeking a -- I guess she thought maybe a consumer loan for $1500?

MR. ACKLESBERG: No. The reason why it says HUD is that is a form that HUD requires to be used in all mortgage settlements of any sort in the nation. This is called a HUD-1 form. HUD is not involved in this transaction at all.

COUNCILWOMAN TASCO: But one would think they were if they are not aware of that, right?

MR. ACKLESBERG: One might.

COUNCILWOMAN TASCO: And the other thing, she was trying to get $1500 and this is a home mortgage loan she got?

MR. ACKLESBERG: Yes, it is.

COUNCILWOMAN TASCO: Second mortgage?

MR. ACKLESBERG: No, it's a first mortgage. It ended up being a first mortgage. She had two mortgages, but what they fooled her into doing was to refinance those mortgages. See, the reason for that is that the companies can get the benefit of certain preemption. There are no usury laws are in effect if you get into first position, so that's what they're trying to do; they're trying to get into first position. That's a matter of federal law that if you get into first position there's no usury. So by fooling her into refinancing everything, they were able to charge her $9,000 in fees. We calculated that this was about a 17-point loan. And if you call the insurance, really just points in another -- I mean, she said she didn't even need insurance. Then it really ends up being about a 22-point loan that's financed at 13 percent. So in other words, you're paying two ways: You're paying in the principal, the principal of the loan itself including very large fees. And then those fees end up getting financed over 25 years at 13 percent.

COUNCILWOMAN TASCO: Okay, thank you very much.

Any other questions?

(No further questions.)

COUNCILWOMAN TASCO: Thank you.

Mr. Kromer's next, and then we'll have the lending institutions. We promised him 12:30.

(Witness comes forward.)

COUNCILWOMAN TASCO: Good afternoon. Would you identify yourself for the record?

MR. KROMER: Good afternoon. I'm John Kromer, I'm director the City of Philadelphia's Office of Housing and Community Development. I appreciate the opportunity to testify on this measure, and I want to thank you, Councilwoman Tasco, for taking the initiative to launch this measure last spring and to thank ACORN and Northwest Counseling Service and the other advocates and counselors and agencies that participated in the ad hoc committee and the task force. During the months that have passed since the time when you originally proposed this, in my view, the legislation has improved tremendously and I think that the result is something that we can be very proud of.

A few comments just off the top. There's been a lot of discussion in the past year about neighborhoods and Philadelphia neighborhoods and how much we want to do for our neighborhoods. If we're serious about that, we've got to give priority to fighting predatory lending. This issue couldn't be more serious and --

(Applause.)

MR. KROMER: The testimony has made that clearer than I could state it. No matter how wonderful our new housing construction programs may be or our vacant house rehab or open space, if people are losing their homes or their equity or their net worth, we've got a terrible problem and so this couldn't be more appropriate.

Secondly, I think we'd all be delighted if someone else were taking care of the problem, but the people who may be in a position to take care of the problem are not doing so, Congress, the General Assembly, the lending industry, the regulators. At some point, perhaps they'll take action and perhaps the action and perhaps the action they take will be appropriate, but it's not happening now and we've got to do something now to deal with the situation here in Philadelphia.

(Applause.)

MR. KROMER: Finally, again others have said this much more effectively than I could. We're really up against a very effective marketing and promoting system that's worked to the detriment of many families and individuals in Philadelphia. I live in West Mt. Airy and I will come home in West Mt. Airy and there will be a leaflet through my mail slot from a company with a 1-800 number telling me about a great deal that I can get. There will be a letter for me with a postage stamp on it, first class, from a home improvement company with another great deal for me. The phone will ring, there will be a recorded message or a live message from someone congratulating me for the financing for which I've been pre-approved. And, of course, the TV is filled with promotions and advertisements. So that marketing clearly is ongoing, it's comprehensive and, unfortunately, it's very, very effective.

I'm very pleased that a role is being proposed in this legislation for the Office of Housing and Community Development. In the other cities which familiar with community development agency does not play such a significant role, and I appreciate the opportunity to take some responsibility for implement this measure. It's a privilege to have that responsibility.

I have a few comments about the amended legislation which I saw for the first time this morning but which I believe addresses a lot of the concerns that I came into this room with. Just two issues that may involve a change. One is a minor issue that relates to the reference to the Office of Housing and Community Development and responsibilities. I guess it's on Page 15. My understanding is that in Section 9-2405, Subsection 1 on the last line, that we're currently reads Subsections 9-2401 that the intent was that to be 9-2402.

COUNCILWOMAN TASCO: Yes.

MR. KROMER: So with that clarification, I think we're fine.

The other issue in that same paragraph, with regard to the phrase "but not limited to," and that creates an ambiguity that perhaps would be helpful for us to resolve now. If the option to do more is up to the Office of Housing and Community Development, then it seems to me that phrase "but not limited to" is not necessary. If on the other hand it's Council's intent to require the Office of Housing of Community Development to do more, it would be helpful to me to have that clearly specified or just to have the phrase deleted in the interest of clarification. That would certainly be helpful.

COUNCILWOMAN BROWN: What page is that, Mr. Kromer?

MR. KROMER: Same paragraph, Page 15, middle of the page, Subsection 1.

COUNCILWOMAN TASCO: As I understand

it, my technician here, my lawyer, "but not limited to" means it gives you more power. Is that the question?

MR. KROMER: Well, if that's the case, I think the phrase is unnecessary. The office could simply do more over and above the provisions of the ordinance, but I'm concerned about the ambiguity of the phrase and the possibility that others would interpret as on their own rather than leaving that to the Office of Housing and Community Development, so I'd recommend just deleting that "but not limited to."

COUNCILWOMAN TASCO: As I interpret it, it seems that you are going to be this in charge of the enforcement and it says that you will promulgate rules and regulations and such rules and regulations shall include, this is one example but they're not limited to these regulations. If you want another rule, you can do it, too.

MR. KROMER: I'm sorry, if?

COUNCILWOMAN TASCO: Such rules and regulations shall include but not limited to means that the standards, guidelines, and procedures for the approval of plans pursuant to subsection --

MR. KROMER: Yes.

COUNCILWOMAN TASCO: -- means that you can do more. It's just not limited to those areas.

MR. KROMER: If the discretion is up to the OHCD director, then I would suggest that that phrase "but not limited to" is not necessary because the OHCD director could do that without the mandate. I'm just concerned that this "but not limited to" would be interpreted differently by different parties and it is not clear that the discretion is not OHCD and not some other parties with another interpretation of the legislation.

COUNCILWOMAN TASCO: Except that if take that out it says "Such rules and regulations shall include the standards, guidelines, and procedures for the approval of plans pursuant to subsection..." Blah-blah-blah.

MR. KROMER: Mm-hmm.

COUNCILWOMAN TASCO: You don't see that limiting you to just those things?

MR. KROMER: I think that should stand. Perhaps we could all be satisfied with an addition to the sentence which would say "and other such standards, guidelines, and procedures as OHCD may deem appropriate." It seems to me that would give all of us what we want.

COUNCILWOMAN TASCO: We'll get rid of the language and then we'll add it on the amendment.

MR. KROMER: Thank you for considering that.

COUNCILWOMAN TASCO: Okay. Thank you.

MR. KROMER: I have two comments with regard to housing counseling, and these are not proposals to change the legislation but simply comments on the process. I think Philadelphia really has an advantage over other cities that are wrestling with this issue in that we have a citywide network of housing counseling agencies, some of which like Urban League are very well qualified to deal with this issue, others of which need a little bit of training but a limited amount but could be up to speed and very well prepared to deal with this issue in short order. So I think this is a golden opportunity for the OHCD-funded counseling agencies. Clearly, some education and training will be required. One of the problems that we will face is that none of in us this room know what the demand for service will be that results from the enactment of this legislation. This is not a reason to stall the legislation, but in one case, a fairly cursory review may be appropriate or a group counseling session. In another case, we may need to have the four-hour phone call that the witnesses described earlier or several four-hour phone calls. So I will ask the counseling agencies and the professionals, representatives nonprofit agencies in the room today to work with my office and to work together to develop the right approach first for training the counseling agencies and then for determining how best to accommodate that demand. Certainly, we could do that. The capacity is there. That's the good news. But I will look forward to working with all of you in developing this approach to make sure that it is as effective as it can be.

There is one other related issue that is a certain concern, but I think at this point not a significant concern. All of the counseling agencies that OHCD currently funds are funded with federal money through the Community Development Block Grant. Clearly, some significant number of people who may be considering sub-prime loans or high-cost loans will have incomes that exceed the federal income standards that are associated with the Community Development Block Grant. Again, we don't know how many there may be or how big an issue that might be, but that's an issue that we'll have to monitor and we will monitor that through the counseling agencies and report back to Council. But there's a potential cost issue that we'll have to deal with. Again, I don't think we need to change the legislation. We'll just have to be aware of this down the line and work to provide the appropriate resource if that's needed.

I want to mention that the City Solicitor is not able to be here today to testify but has reviewed the legislation, is interested in having the Law Department play a major role in addressing this issue. The Law Department has been represented in the planning that's gone on during the past months, and the Solicitor is very interested in exploring the possibility that in some of these instances that have been described here, the City might enter as a plaintiff and take action proactively. So that is an active issue for the Law Department.

COUNCILWOMAN TASCO: Very interesting.

MR. KROMER: Again, this ordinance, as amended, was something I just saw this morning, I don't know how the mechanics of the Council review and approval have to work, but if we could have an opportunity for the Law Department to look through this and the Mayor's staff to go through this before committee approval, I think we could do that in short order and get back to you so that we could have a piece of legislation that we're all ready to move on. Thank you very much .

COUNCILWOMAN TASCO: Thank you. We appreciate your testimony.

(Applause.)

COUNCILWOMAN TASCO: Just a minute. Councilwoman Brown.

COUNCILWOMAN BROWN: Good afternoon, Mr. Kromer. Since we know this to be a national problem, do you know if any other municipalities across the country have, A, tackled it; B, come up with legislation at the local level to deal with it or does Philadelphia stand to be a ground-breaker trendsetter in this area? Do you know?

MR. KROMER: I know that those who have been involved in planning for this legislation and drafting and redrafting a legislation looked very closely at the City of Chicago which has passed some local legislation and there's some similarities between this an Chicago's, but significant differences as well. And others more involved speak more on that.

COUNCILWOMAN BROWN: I have a second question, put it in context. And the context is so often folks are held responsible for that which the know nothing about. Now, I asked Ms. Hemingway the question has a reach been made to the members on the other side of the equation to enlighten them, get some acknowledgment that there is a problem and/or some indication of a willingness to remedy the problem. Has the City or you on behalf of the City reached to the lender community, the banking community to state what appears to be very much the obvious.

MR. KROMER: Yes, but it certainly hasn't been enough, and the power of local legislation certainly strengthens the message and elicits a response that a friendly conversation would not elicit, so I'm pleased that this is happening. It's certainly going to attract some attention and some responsiveness.

COUNCILWOMAN BROWN: Thank you very much.

COUNCILWOMAN TASCO: We thank you very much.

(Applause.)

COUNCILWOMAN TASCO: We just want to say that this bill is the City's effort to protect its citizens here in Philadelphia. As I said earlier, I've been conversation with my State rep to begin to take action on the State level to see if we can strengthen the laws on the

State level and that will be done through our task force that we have. They are looking at additional legislation, and once that is done, we will move to the State to see what we can do to protect the citizens across the State. And certainly, the State can levy higher fines than the City can levy.

We'd now like to call on representatives from the lending community. The Joint Council of Mortgage And Mortgage Brokers.

(Witnesses come forward.)

(Break taken.)

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(Proceedings resume.)

COUNCILWOMAN TASCO: Okay, we're ready to begin. Could we have your continuing, please.

Good afternoon.

MR. LEVY: Good afternoon.

COUNCILWOMAN TASCO: Thank you for waiting. I think part of your staying here or being here was an education process for you. And certainly, we've heard some pretty bad stories that just reflect a small example of what's going on here in Philadelphia and particularly across this country. So we appreciate your coming forth to testify this afternoon.

Who's going first?

MR. LEVY: I guess I will.

COUNCILWOMAN TASCO: Would you introduce yourself.

MR. LEVY: Thank you Madam Chair. E. Robert Levy, I'm the Legislative Regulatory Counsel for both the Pennsylvania Association of Mortgage Brokers and the Mortgage Bankers Association of Pennsylvania. I have Michael Golonzo (ph) and Sam Marelli (ph) with me.

COUNCILWOMAN TASCO: They'll introduce themselves.

MR. LEVY: That's fine.

COUNCILWOMAN TASCO: Are they going to testify?

MR. LEVY: Probably not, unless there's a question.

COUNCILWOMAN TASCO: Okay, then you can identify them again.

MR. LEVY: Okay.

COUNCILWOMAN TASCO: Go ahead.

MR. LEVY: Mr. Golonzo is president of the Pennsylvania Association of Mortgage Brokers. Mr. Morelli is the president-elect of the Mortgage Bankers Association of Pennsylvania.

COUNCILWOMAN TASCO: Thank you.

MR. LEVY: A lot was said here today and, of course, we have a lot to address. I want to start by saying that let there be no mistake but that our industry, our joint council, as we call it, the two organizations that represent the mortgage lenders making approximately 70 percent of the mortgage loans in the Commonwealth of Pennsylvania, as our industry does around the country today, is totally and very passionately against predatory lending. Predatory lending is not something that we in any way sanction. We do not want any of our lenders involved in it. And we do not want any of those stories that represent true predatory lending activities to continued; we want it stopped. In fact, we very recently met with the Department of Banking that regulates our industry here in Pennsylvania and urged the department to involve themselves in great enforcement against those mortgage lenders, that is mortgage bankers and mortgage brokers as long well as any financial institutions that they regulate, against any predatory lending activities. We also told the department that to the extent necessary, and we do recognize that there is a staff limitation and a monetary limitation in terms of their capability to enforce as fully as everybody would like, that we would fully support bringing more financial capability to the department to make sure that enforcement is as strong as it can be to put these predatory lenders out of business. So we're all on the same wave length in terms of that kind of a problem.

I will say that the problem that we face in a hearing of this nature is that it becomes overwhelmingly a process whereby -- and I understand that that's the process -- whereby you will hear only the negatives that occur as a result of the activities of some lenders. And some of those, I'm glad to say, are out of business and justifiably so. Some of the others will be out or change their tactics in the future. We have been very successful, incidentally, in dealing with a number of predatory lenders that are now out of business and others that have been dealt with both on a State level and by the Department of Justice and others that have jurisdiction over them, unfair lending activities and other reasons, so we have had a good deal of success and that success is continuing in terms of dealing with these kinds of companies.

The main problem, as I started to say, is when all of hearing where you bring together, select out of a community or a state or a nation, as it were, because we have to have hearings on many levels around the country, as you're probably aware quite recently, what happens is you fill the air with the negative stories and then you have to sit and listen to testimony concerning a very specific piece of legislation which is really what we're here to deal with. We came here today because there's a very specific bill that is being presented that we have some real problems with, not because, as I said, we're in favor in any way, shape, or form of assisting companies to engage in predatory lending, but because we're very, very concerned about the impact of a bill that is a very, very broad bill and the most unique that we've seen around the United States in this area and probably the most dangerous in terms of precluding the kind of lending that we all want to see in Philadelphia for people most in need.

It's interesting that just very recently Governor Ed Gramlich of the Federal Reserve was here in Philadelphia and testified with regard to what they were doing at the Federal Reserve level. Now, bear in mind that we have today on the books a federal law which is called The Home Ownership Equity Protection Act. We are subject to that. Our membership is subject to that statute as it is, by the way, with regard to many other laws that regulate this industry including the Real Estate Settlement Procedures Act, the Fair Credit Reporting Act, The Home Mortgage Disclosure Act and others and, of course, on a State level we are regulated thoroughly and totally by the Department of Banking here in Pennsylvania.

I would add also that that department

certainly watches over its constituency, namely, the lenders, closely. We have net worth requirements, we have bonding requirements, and we are presently in the process with our full support of trying to finalize some regulations for continuing education for mortgage bankers and mortgage brokers for the first time in Pennsylvania. That's something that we're working on very closely. I think the regs are now at the Attorney General's Office and we're satisfied that, hopefully, within the next year they will come to fruition and a continuing ed program will be started whereby one person at every office and every company will have to go through that education each year.

We are also currently talking amongst ourselves within our own organizations, the joint council about the possibility of furthering the education requirements and perhaps even licensure of loan officers in connection with that because we want to be sure that the people are out there talking to the potential borrowers are well educated and well trained. So there's an awful lot going on and you, Madam Chairperson, mentioned earlier that you're even thinking about doing something on a State level which is something that, of course, we would be very interested in looking at with you to make sure, as we did in this case and we did -- I should forward a memorandum to the Council with some significant problems that we saw within the existing bill and some of those have already been changed which we are pleased with to the extent that our concerns were recognized and some changes made, but also I think that indicates and we just got the amendments a couple of hours ago, and because we were listening to testimony, didn't even have a chance to really read through them in any detail. So I can't even comment with any intelligence about them. But suffice it to say that something as fresh as this, as new as this which already has gone through a proposed amendment that's sitting on everyone's desk today would indicate the need for a little more deliberation and careful consideration rather than rushing into amendatory language with a bill that is this new with that many changes already. I think -- we believe that there's a need for a much more careful consideration of the bill, and I'll get into that in a minute.

In any event, I thought that Governor Gramlich's comments were better coming from myself, obviously, because not only would my comments be viewed as biased because I represent the industry, and that's a fair statement. Obviously I do care about the industry. But as I've always said in representing industry, we are really here on behalf of the consumers, and I say that without any concern whatsoever or fear of criticism. And why do I say we represent the consumers? Because our industry is one that operates in a competitive marketplace where if competitive environment is free of restrictions, we do more for the consumers than we would ever do if there are restrictions placed on the Industry. Evidence of that is in 1980 when we passed the Depository Institution Deregulation and Monetary Control Act of 1980, we removed interest rates ceilings and points ceilings around the country. And one might say, "Oh, my God, that's going to harm the consumer." Well, not only didn't it harm the consumer, but if you recall, I'm sure you've all had the experience by now of watched rates drop dramatically over that period of time since then down to 30-year lows when consumers in the country as a result of the free competitive marketplace and the fact that our industry was flexible and able to meet the demands of that marketplace, consumers were getting fantastically low rates. They were down to around the 6 percent level. They were refinancing homes, they were dropping their rates dramatically. We had volumes of $1.5 trillion in the United States. And all of this enabled consumers to take more money out of their homes and use that discretionary money in any way, shape, or form to purchase other products and the like.

Alan Greenspan in a speech I heard in Washington, DC -- we're active with the National Association of Mortgage Brokers and the Mortgage Bankers of America and I sit on several committees with them and the like. Alan Greenspan in a speech to us in Washington as one small part of the speech, and it wasn't the major part of the speech, said how important our industry was in the good economy the company was enjoying because of the tremendous amount of mortgage product that was out there and how that mortgage product brought -- not home improvement contractors, the ones we're talking about in any event -- but brought in contracting, brought in furniture purchases and drapes and kitchen appliances the like, all of which brought to bear upon the economy and increased and enhanced it to a point where we were one of the major factors that has made it as good as it has been through the number of years recently.

So our industry has a lot to do with what this country is very positive about and we've gotten to the point now where we have the highest home ownership rate we ever had in the United States, 67 percent, and we're looking to go to 70 percent. We work very closely, by the way, with housing and urban development, Fannie Mae, Freddie Mac in efforts to bring affordable housing to the consumers of this country.

In fact, I sit on an advisory committee for Fannie Mae, a partnership office where we sit and all we do devote our time to is bringing affordable housing to the consumers of this country and into this area and into this region and into Pennsylvania and Philadelphia and elsewhere. We spent tremendous amount of time on that. We're busy with the Habitat for Humanity building homes. We just donated $10,000 to Habitat for Humanity for homes in Philadelphia.

So point being that we really are very, very much involved and on the side of the consumer. And bear in mind that we do not rates higher. When rates go up, we don't cheer, we're upset. Why? Because we make less money. The volume is less. We work on lower rates, greater volume, and that's when our industry thrives. And so our industry and the consumer have exactly the same interest. But the point that has to be made is if you start to in any way disrupt the competitive ability of our industry to compete within the national system, because we compete not on a local level, we have national rates. The rates are set nationally. We don't set interest rates here. We have to comply with the demands of secondary market. We have to comply with what we can sell loans to Fannie Mae and

Freddie Mac and securitize and the like, so we are subject to all of that in terms of rates. We want rates lower, we want volumes higher, and that's what the consumer wants. So you don't even have to magnanimous to be on the side of the consumer when you're in our industry because everybody's interest is the same.

In any event, as I said, coming from me it's one thing, but I thought it was very important to look at the remarks by Governor Gramlich. Governor Gramlich just had completed some five hearings and the country on the very subject of predatory lending. And the reason he did so was because he was criticized by Congress in May at a meeting I was at, at a hearing, where they felt that the Federal Reserve was not doing enough. And bear in mine, the Federal Reserve has a lot of authority under the Homeownership Equity Protection Act. They can actually drop the rate, which is now 10 percent, the triggers they call them, which is now 10 percent over the comparable U.S. Treasury, they can drop that down by 2 percent, down from 10 to 8. They can also add fees an charges to bring in more loans under

^ CK ^ CK something. So here's the one agency and the one law that has been operative in the high-cost mortgage loan area for a number of years since 1994 where we've had actual experience. So it's very important to know what Gramlich said because this is a person who's a regulator who is reasonably objective, I would imagine from everything I've seen or heard. The Federal Reserve is the one agency that, I think, no one can say is not objective. And here's just a few tidbits of what he said:

He said among the concerns is the overgeneralization that sometimes occurs when the term sub-prime lending and predatory lending are equated. And he explained that conventional home purchase mortgage lending to low income borrowers increased nearly 75 percent between 1993 and 1998, compared with 52 percent rise for upper-income borrowers. During this time, conventional mortgages to African-Americans increased 95 percent and Hispanics 78 percent, compared with the 40 percent increase in all conventional borrowing. Much of this increase lending can be attributed to the development of the sub-prime mortgage market. So this is a positive thing. The sub-prime mortgage market was a positive vehicle whereby consumers who previously would not have been able to get the loans were able to get loans and that's why they purchased homes and that's why home ownership is high as up as it is.

He goes on to talk about the number of loans and rapid growth in the market. He says, "This access gives people from all walks of life a shot at the American dream, owning a home, and getting capital gains. He goes on to note that predatory lending, and we said this here today and Madam Chairperson I was interested in your comment that the term "predatory lending" is elusive and you compare it to the statement by one of the justices of the Supreme Court who said it's elusive, you know it when you see it and we see to much of it. The problem with that is, and I agree with you and you stated very succinctly and correctly, the problem with it is, as we all agree, that elusiveness translates into ambiguity and ambiguity translates into too much risk for lenders, and too much risk for lenders translates into pulling out of the markets and not making loans. And so this elusiveness that you describe really is a problem if you bring it to bear in some kind of legislation which then creates ambiguous standards that leave lenders in a position where they don't know from day to day whether the loans they're making are going to be criticized, whether they're going to be subject to litigation as this bill would subject them to, whether they're going to be subject to severe penalties which this bill would subject them to. And so what happens is, if the loans get too risky, the lenders simply can't make the loans, they can't afford to make the loans.

Let me just go on for a moment. Gramlich also points out -- for example, in your bill you prohibit balloon mortgages. Now balloons, can on the surface sound very negative, but balloon payments if they're made properly and, again, if you excise for a moment these bad actors, and there are bad actors in every endeavor of every walk of life, and if you excise this very small number of bad actors, some of whom who have already been excised permanently because they're not in business anymore, and you general marketplace, a balloon loan made by a competent lender with integrity can be very good for a consumer. For example, a consumer maybe far better off with a 15-year 30-year payout loan on a balloon basis where the payments is exactly the same as on a 30-year loan, but the cost that have loan is reduced because it's 15 years. So the percentage of interest reduces as a result of that and makes a loan affordable that otherwise would not have been affordable. So for some consumers, it's a very good product. Why would you eradicate it? Just eradicating it across the board creates a very negative situation for a significant group of individuals who would benefit by that. And I should add that loans today pay off in a five- to seven-year period. That's roughly about what it is. So a 15-year loan is not a 15-year loan; a 30-year loan is not a 30-year loan. In most instances, it's going to pay off way before that, either by way of refire because of move and a sale of a home or whatever. So a balloon payment is an example of one of the issues in the specific bill that is of great concern.

The same with prepayment penalty. You know, a prepayment penalty reduces the rate of interest that a consumer pays. Why does it reduce that? Because a prepayment penalty literally in many cases stops churning of a loan, stops loan flipping, stops the very thing that we're concerned about so that where somebody wouldn't induce to flip a loan, to refinance it quickly. A prepayment penalty in many instances can stop that. Can it be abused? Yes. Is it always abused? No. So you take something that can be very good and very positive and you delete it, you excise it because you see it in one context where bad. That's the danger we face with this kind of bill.

We've been there this before. We've seen this kind of thing before and we know the dangers in it. And in fact, we believe, and we don't have any hard data yet, but we believe we will have in the near future that North Carolina that passed a harsh statute and passed New York that passed a harsh regulation are beginning to see lenders leave the market. And so the consumers that we're concerned about, the people sitting in back of me here who are looking for lenders to come into the community and make these kinds of loans where some of the credit is impaired and so on may fine that it's going to be harder and harder to get a loan as a result of these kinds of activities.

Even advertising Gramlich says generally advertising enhances information but sometimes it's deceptive. So he then talks about HOEPA and he talks about the trigger for HOEPA where it is. And basically what he decides to do at this point is he says we're not ready to reduce our triggers, we're not ready to bring them down even from 10 and 8. Now, that may sound high, but think about how far below we've come here in Philadelphia in this proposal, way below anything existing in the country that we're aware of below Chicago, certainly. And I'll get to that in a minute.

So what Gramlich is saying is we need more hard info, information. We don't have it now. We need to get more data. We need to find out how many loans fall within HOEPA now. We need to find out how many loans would fall within HOEPA if we lowered the triggers. We need to find out whether it's significant and whether it's going to help the consumer. And what he comes down to is what we believe, and that is what you have to do is educate the consumer. That's where we are most lacking. We believe education is the most significant thing that we can do to correct this predatory lending problem and that's where we would work very closely with your Council. We'll work with you on any proposition, but that in particular is an area that we need to work on very desperately because consumers need to be educated so that they can't be fooled and they can't be tricked by some of these lenders when they do pop up from time to time. So we believe between education and enforcement -- and by the way, if you listen to testimony as you did, I know you heard a lot about fraud. We can deal with fraud today. We can deal with it criminally. We can deal with it civilly. The banking department has authority to put a lender out of business if they're engaged in fraud and fraudulent activity.

So we have all of tools we need if push for strong enforcement, and that's the message that has to out. We need to enforce, not to enact, other laws.

COUNCILMAN RIZZO: Madam Chair, may I ask a question?

COUNCILWOMAN TASCO: Councilman.

COUNCILMAN RIZZO: I want to thank all of you for coming here today to help us deal with this, but I have a question.

MR. LEVY: Yeah.

COUNCILMAN RIZZO: You talk about education. Is your organization industry prepared to have a phone number where people can call to check out a person that is a predator?

One of these companies that we don't -- one out there? We'd appreciate, because I'll be honest, I wouldn't know whether I'm dealing with a good guy or a bad guy. So if you're wanting to keep your industry up here, then why don't you help us by sharing a list of people that you know of that are out there that we shouldn't deal with.

MR. MORELLI: We have that

information, Councilman.

COUNCILWOMAN TASCO: Would you identify yourself for the record, please?

MR. MORELLI: I'm sorry. My name is Sam Morelli. I am the president-elect of the Pennsylvania Association of Mortgage Bankers.

COUNCILMAN RIZZO: So do you have a list of bad guys?

MR. MORELLI: We have a list of lenders that are the good guys.

(Laughter.)

MR. MORELLI: So --

COUNCILMAN RIZZO: But if not on the good-guy list --

MR. MORELLI: If you're not on the good-guy list, then I guess you don't want to deal with that particular individual. However --

COUNCILMAN RIZZO: So you're saying today for the record that if your not --

MR. MORELLI: For the record, we can provide you with lists on both the mortgage bankers and I believe the mortgage brokers side.

COUNCILMAN RIZZO: Could you explain the difference?

MR. MORELLI: Yes. Mortgage bankers, for the most part, are the lenders. We represent most of the area banks. Beneficial Savings Bank was mentioned here earlier. First Union was mentioned here earlier. We represent a lot of mortgage companies.
What happens is we use our funds to close a loan. When you go to a broker, and I should defer to Michael to explain that and I will do that.
COUNCILWOMAN TASCO: Identify yourself for the record.
MR. DELONZO: I'm Mike Delonzo. I'm the President of the Pennsylvania Association of Mortgage Brokers. Sam is correct. The main difference between a banker and a broker is a broker does not fund its own loan transactions. So in other words, a broker does not close in its name whereas a banker will not close in its name. Both organizations basically do same exactly thing. One closes in its own name, one doesn't.
COUNCILMAN RIZZO: How do you know -- just quickly, how do you know when take out a mortgage -- give you a personal experience. I

wanted to refinance my mortgage and I listened very carefully to experts on the radio and they said come in and recast your mortgage. That mean come in and sit down and negotiate a new rate. Well, when I walked in, they said, "Well, you can't do that because we sold your mortgage to Fannie Mae. We don't have it in our own portfolio."

Is that what you do?

MR. DELONZO: No, as a broker we don't service loans so -- and basically, bankers and brokers for the most part -- well, brokers do not service any loans. And bankers, the neighborhoods bank will also sell the servicing of loans. So servicing is very seldom kept by a banker or a broker. Is that what you're asking?

COUNCILMAN RIZZO: No. I found a bank that has my loan in their file which when I want to -- the interest rates come down, I go in and just negotiate the new number and it's done. There are banks out there or lending institutions that don't sell their loan to Fannie Mae; am I right?

MR. MORELLI: That is correct. Most

of those are local banks and they hold their loans in their own portfolio. If that is the case, Councilman Rizzo, then you do have an opportunity to recast that loan. That's a term that is not used much so you must be an old fellow.

COUNCILMAN RIZZO: No, I just had a few loans.

MR. MORELLI: In any event, the recasting is simply the renegotiation of the interest rate and remaining term of a loan with the borrower who originated the loan -- with the lender, I'm sorry, which originated the loan. Most of us in the marketplace today, whether it's you, me, or anyone else, we do not have the ability to recast loans. If we're desiring to change anything with our mortgage loan our normal process is to refinance that loan and that's because of the marketplace. The principal amount of the loans are sold, that's one portion of the loan; and servicing rights of the loan are sold, that's another portioning of the loan. So when a consumer goes and gets a mortgage, there's two portions to that mortgage. One portion may be retained by the lender or may be sold to another lender or to Fannie Mae or Freddie Mac, whatever the case maybe. And the other portion, the servicing portion may be retained and serviced by that original lender or may be sold by that original lender, and sold many times thereafter.

MR. LEVY: One of things, by the way, Councilman, I want to point out, too, and I'm glad you asked the question is that by virtue of this process, we as lenders and brokers bring mortgage financing into Philadelphia and into the State that is out of State money. And that's one of the big features of this industry is that through securitization and through sale to investors out of State and the like, money is brought in from out of State and we constantly replenish money so that when we sell a loan, that replenishes our ability through warehouse lines of credit and the like to make new loans. So we're constantly able to make new loans, sell them and bring more money in.

COUNCILMAN RIZZO: Since you're able to provide a list of the appropriate people that we should be doing business with, our constituents, could you explain is the Better Business Bureau also able to be involved in this? If one of my constituents, if I called the Better Business Bureau and gave the name of the lending group that we heard about today, would they have a record? Does the Better Business Bureau involve themselves in this? Maybe they should.

MR. MORELLI: Probably not. All of the lenders in the State -- in the Commonwealth of Pennsylvania are regulated through the Department of Banking. The Department of Banking has a consumer affairs hotline. I don't have that phone number with me, but it IS available, and that would be my first -- first probably question to find out -- if I am a consumer and I'm dealing with ABC Mortgage Company, does that mortgage company have any complaints against it with the Department of Banking. So that would probably be my first phone call.

MR. LEVY: Also, there's something going on on a national level very important along the lines that you were talking about, and that is there's a registry being proposed and it's well along the way right now for mortgage brokers whereby -- all mortgage originators, I think, actually. And both the Mortgage Bankers of America and National Association of Mortgage Brokers are involved in this process whereby there's going to be a listing, literally, a listing that you can access which will show of all of the originators in the united, including obviously those in Philadelphia, which ones have loans, for example, that were too many early defaults and, you know, all of the triggers that would indicate that this broker is doing something wrong. And so what's going to happen as a result of this -- this is all brand-new. It's just happening, but I think they've been working on that for a couple of years now and it's very, very close to fruition. So we are very close to having a situation where you will be able to literally check and see whether a particular broker is one that you'd be interested in using or not as a result of the past experience. I think, in my judgment, I think it's going to put a lot of brokers out of business and a lot of originators out of the business that shouldn't be in the business. So here again, it's evidence our industry cares about the consumer. We don't want these people in the business and we're going to get rid of them.

COUNCILMAN RIZZO: Good. Thank you very much.

MR. DELONZO: One quick point as well. The Pennsylvania Association of Mortgage Brokers as well as the bankers, we instituted an ethics committee. We launched it just last year, and we have an 800-number that a consumer can call if they have any questions about a loan product or about a transaction that they're involved in or if they have a complaint. So our industry wants to educate the consumer and also wants to police our own.

COUNCILMAN RIZZO: I appreciate that and I would hope you'd make that number available. Certainly our media would pick up on that and publish that because it would be very helpful if our constituents had a place to turn to to be able to find out some information about the people that they plan to do business with. Thank you very much.

Thank you Madam Chair.

MR. LEVY: Having said all of that and having, I think, shown the sincerity of our desire to get the bad people out of the business, I just want to address what we're really here to do and that is the proposal.

COUNCILWOMAN TASCO: Let me ask you a question before you go forward.

MR. LEVY: Sure.

COUNCILWOMAN TASCO: Are you familiar with John Berg.

MR. LEVY: John Bird?

COUNCILWOMAN TASCO: John Berg was the guy who --

MR. LEVY: Oh, Berg. I'm sorry.

COUNCILWOMAN TASCO: Berg. He built some houses in my district, and through a whole scenario of fraud and deception, caused people -- people bought those homes and they lost them. And right now I understand there's a lawsuit against him. And you spoke earlier about all of these agencies and rules and regulations that are set up to protect the homeowners. None of that protected those people.

MR. LEVY: You know, I agree with you to this extent. We are not happy. I'll state it for the record. We are not happy with the enforcement that's taking place anywhere in the country, and we believe it's not a lack of desire. We know in Pennsylvania it's not a lack of desire. The problem, I believe, that exists in Pennsylvania right now is that the Department of Banking which has the desire and the willingness to move against some of these folks that they have jurisdiction over doesn't have the capacity either financially or through its staff and we need to support them and make a real effort to get the kind of staffing and the kind of financial capacity that they need to enforce. They the tools. We have a Mortgage Bankers and Brokers Act, that I'm sorry to say I helped write. It was many years ago in 1985 we started on it. We enacted it in 1989. It became effective in 1990. We just did amendments to that Act recently. We've got, as I said, the continuing education regs. We're trying like crazy to get this thing up to speed, but yet you have a department that has an employment of staff that's really not at a level, despite their desires, to really do the job.

COUNCILWOMAN TASCO: If you all care about the consumer, are you lobbying the State Legislature to fund the Banking Department so they can protect the consumer?

MR. LEVY: The answer is yes, we intend to, but with the permission of the banking department. I mean, we're not going to go to the Legislature unless the department itself says, yes, we would support you in requesting additional funding. We mentioned that to Jim Kauffman who is the acting Secretary of Banking. The prior secretary has left. And he hopefully will be nominated so that we'll have a permanent secretary. And it was -- in September we met with Secretary Kauffman and that was one of the things that we talked to him about. And we believe that he is interested in stronger enforcement. I believe we need the same on the Federal level as well. HOEPA, Home Ownership Equity Protection Act, you've got statute, you've got enforceability, and we think the Federal Reserve needed what it got when it appeared before Chairman Leach in May of 2000, which was it got a boot in the rear-end. They said, "You better get to work and you better start enforcing and you better start dealing with this law. And that's the kind of thing that has to happen under the Real Estate Settlement Procedures Act and the Fair Credit Reporting Act. We need, you know, if we spent the kind of time we spend on some of these things and really pushed for money and enforcement at both the State and Federal lever, I think we'd go along way in stopping this problem. So I agree with you, I don't think that we have the kind of enforcement -- and by the way, I have to say with all due respect, and I know that this is all motivated and despite our problems with, you know, the specifics that cause for problems for us and for the consumer, you know, just passing more regulations and more laws, especially where you necessarily have to be ambiguous and where you have other regulators involved with the same industry such as you would have here where you would have the City of Philadelphia and then you would have the Department of Banking and you would have confusion because really you'd wind up with two regulators.

COUNCILWOMAN TASCO: Well, since the State Banking Office is not working, we need something in Philadelphia to protect our people until they start acting.

(Applause.)

COUNCILWOMAN TASCO: We don't know when they are going to take action.

(Applause.)

MR. LEVY: It's working, but we need to enhance its staff. And I think that rather than put into place, assuming you had jurisdiction to do that, some additional regulation over the same industry that's already regulated under one comprehensive set of rules and regulations, I think, would be a problem. And in fairness --

COUNCILWOMAN TASCO: Well, that legislation, if they every get it together, could always supercede Philadelphia. It doesn't stop us from regulating.

MR. LEVY: Well, for example, we have -- one of the problems here i the sub-prime loan. There's no -- to my knowledge, there's no statute ordinance or anything in the country where they define the sub-prime loan and then make a sub-prime loan, any sub-prime loan if in fact there was 3 to 5 percent over the treasury, now I think it's up to 4 1/2 to 6 percent, something like that, and make that sub-prime loan which is not a high-cost loan, put it in the same category as a high-cost loan and then say, you know, if you do these things you're subject to fines and penalties and lawsuits and everything else. That's unheard of. It's something that would cause a major problem in the industry. If you talk about something that's going to keep people from doing business here, that will do it. I mean, you're telling sub-prime lenders who are not high-cost lenders that they're going to be subject to all of these same provisions. Well, why not subject every single lender --

COUNCILWOMAN TASCO: Only if they don't do certain things.

MR. LEVY: That would apply to everybody, Madam Chairperson.

COUNCILWOMAN TASCO: I don't see the

bogeyman. How many reputable lenders left Chicago when they passed their bill?

MR. LEVY: We don't know, but I wouldn't be surprised if a lot left. And I don't know that Chicago -- I still have a problem. I think Chicago's mainly focused on just the depositories and others that they actually do business with. There is some language in there that might indicate otherwise, but the Chicago ordinances really focused primarily on those that they do business with and this does not do that.

This -- I mean, this ordinance has to segments to it. One is segment a total regulatory scheme of mortgage lenders similar to the Mortgage Bankers and Brokers Act of Pennsylvania, and that's a real problem in terms of, A, the jurisdiction, whether the City ought to be involved in that kind of thing. But more than that is you've got unique provisions here which are very harmful.

Why would we make a sub-prime loan that's not a high-cost loan subject to all of these restrictive provisions because the problem again is, Madam Chairperson, and this I have to be clear on, by its nature by what you said about the elusiveness by what everybody said, what happens when put regulations or what-have-you into affect, you create ambiguities necessarily that mean that lenders really don't know until after the fact that they may have a severe problem. And when lenders get into the marketplace where you're talking about impaired credit and therefore they're taking higher risk, okay, what happens under those circumstances is if you make the risk too great, in other words, if you add to the already existing risk of making a high-cost loan which is more likely to go into foreclosure which the lenders do not want, and that's risk for them because they lose money when the foreclose. So they look at those types of loans, and then you say on top of that, Mr. Lender, not only are you going to take all of that risk, but once you get over this 1 percentage then you're going to be subjected to all of these things, fines, penalties, and by the way, citizen lawsuits. And do you know what happens to those citizen lawsuits? What happens is what happened with the other cases, the attorneys get involved and they file class-action lawsuits and they pretty much drive everybody out of the market. And you know who gets the money? The attorneys because by the time you divide up what's left after the legal fees in these class action lawsuits, it's very little left for the consumer. And when you put something into a regulation like this as you have where you specifically give the citizens the right -- and I know again I have the greatest respect for your desires and intentions. I know you mean very well with this, but when you do that, I will guarantee you that the day that anything like this comes into effect, you're going to start to see citizen suits. But it's not going benefit the citizen, it's going to be the plaintiffs' class-action attorneys that are going jump all over this. And, boy, are we going to have a problem in this city and then you're going to see fewer loans and then you're going to see people who need the loans who are going to be foreclosed on because they can't refinance and then you're going to lose tax money and everything else. And I would really caution that this business is so sensitive that when you put provisions like that into regulation, it causes severe problems for the consumer as well as the industry. And that's only a part of it.

I mean, I could go through and my -- I would recommend, by the way, I don't know that this is the best way to analyze a new law and it's certainly not the best way to analyze an amendment we saw two hours ago. What I would strongly recommend and request is that before any precipitous action is taken that could result in some real problems that we would be more than happy -- and we do this on a State level as well and we do it on a Federal level as well, that we sit down and meet and talk about some of these issues in a forum where we could spend some time on the specifics because it requires some analysis, each of these provisions. For example, if we wanted to talk about, you know, points and fees, you know, not allowing somebody to, for example, to finance points or fees and charges, well, again, as Gramlich said, does it have a positive; yeah. Those who are abusing it, you've done something good. But those who aren't abusing it, you've removed from the marketplace those people who do not have the upfront money. You're saying you can't finance it and so when they come into our offices, you're sitting with that poor person, and that person says, "Gee, well, I don't have that kind of upfront money to put up where you could have financed it. And he said, "Well, Philadelphia passed this ordinance, I cannot finance those fees. I'm sorry, I can make the loan."

And so again, you take whatever segment that is, whether it's a percentage or 10 percent or 20 percent of the people are now without the loan that they could have had. And what you're going to see is this home ownership rate that we're trying so hard to bring up to 70 percent from 67 percent starts to diminish. And then finally, the consumers will be here knocking on the door saying, "You know what? We've created an onerous situation here. We've got to correct it. We need to deal with this particular ordinance."

So, you know, I would just caution and I would, again, make the request with all sincerity we are available, we will spend the time. We did the other day. We would spend whatever time is necessary because we think it's that important to sit down with you and your staff and whoever you would like us to and go over the detail of this.

And I would also caution against relying on any other city. I know Chicago is a big part of this, because we haven't had enough time to have any real experience there.

And by the way, a lot of the lenders, it was interesting, the City Councilmembers I read in the paper when this thing actually was first put up said, you know, we're regulating the depository institutions telling them they can't involve themselves in predatory lending, but as far as we know, none of them are involved in predatory lending. So it was even questionable as to what the incentive was to put it forth in the first place, but at the very least, we have to be very careful and see what's going on out there because if, in fact, Chicago and North Carolina and New York, which are the few that have actually finally enacted something, are having real problems and we believe -- we certainly know New York and North Carolina are, then it wouldn't surprise us at all if Chicago was also experiencing some severe problems. We don't want to bring those to Philadelphia.

COUNCILWOMAN TASCO: You heard the lady who talked about the fact that she only need $1500 for a heater. She ended up with a $33,000, $50,000 mortgage. Tell me, how do you protect her? What would you do to protect her?

That's what we want. We want to protect those people who get ripped off.

MR. LEVY I wish I could tell you that there was a way to protect everybody, but I will tell you without equivocation that neither would this nor anything else will you ever protect everybody. However, I will say this, I believe, I have a very strong belief that with strong enforcement, those involved in this process -- because it's a deterrent. When you see that it's very likely that if I do this, I'm going to get caught and I'm going to be prosecuted and I'm going to lose license and I may go to jail or whatever else, that's the greatest incentive to not doing it because no matter what provisions you put into place, somebody who's willing to defraud and be predatory is going to just find a way around, go around, take risks. That's what it's all about. And that, interestingly enough, raises the very point I'm concerned about because you know what laws do that impose restrictions like these? The good lenders that don't want to take the risk and are not willing to just ignore the law go out of the market. And what you have left are the very ones that you want to get out because they don't care. They're the ones that are willing to say, you know, I'm going take a shot and make this loan anyway, because they know today that they're in jeopardy. They know darn well that a loan like that, I mean, that description, that person should not --

COUNCILWOMAN TASCO: So raising the fees and charging high interest rates justifies lending money to people who are high-risk, so you can make money if they're high risk?

MR. LEVY: No, no, no, no. I'm not saying that to that level. What we're saying is it's like anything else, if I come to you say and

I say, "I need a loan, but let me tell you a little about my background. I've had a lot of problems in making payments on time for whatever reason" -- now, I'm not talking about people that are ill or, you know, have problems; just somebody who just doesn't do it very well. "And I have had problems and I was in bankruptcy for a while and I'm not working regularly," and what have you. And then pull up a credit score, and the credit scores today make it even more difficult for consumers because they are based upon literally an analysis of millions, millions, I'm not overemphasizing exaggerating, millions of files that have been analyzed and they have come up with criteria. They say if a person has this, this, and this in their background, they're more likely to default on this loan. So in essence, you're coming the a lender and saying, "Look, here's a loan that is more likely to be defaulted than this loan, so if there is a default, you know, here's what you have to go through to try and you're going to have to go after the consumer, you may have to file suit. You may have to foreclose, you have to do this, you may have to do that." Well, are you going make that loan for the same money and take that risk when, theoretically, there were other loans that you could make that are of better loan quality. And you would say, "No, I've got to earn a little more on that loan."

Now, to feed on this poor person inappropriately and improperly to say, "Well, now that I've got you, you know, I'm going get every nickel out of you I can and just, you know." That's where the horror stories -- those people have to be put out of business, and that's why I say to put them out, the way to do it is to create an enforcement mechanism that is strong. And I'm telling you, I mean, we would fight tooth and nail for the strongest kind of potential enforcement that we could get. Our industry would fight for that, with you, together with you and anyone else to get these people out of business. That's with what we need to do.

And we have to publicize it. These people have to know that, you know, you come into the City of Philadelphia and you make one of these loans and you defraud somebody, you're in deep trouble and we're going to get you. And that's what we need to do.

COUNCILWOMAN TASCO: Councilman.

COUNCILMAN RIZZO: You mentioned something that got my attention. Most people in this room, and I don't want to be disrespectful, including me, you don't have the clue what's on your credit report.

MR. LEVY: Mm-hmm.

COUNCILMAN RIZZO: You make an application for a loan and all of a sudden what you just described because there's a flaw on the credit. I mean, they had me hooked up with some guy that lived in Chicago. I mean, this guy, I hope he changes his name. But no one brought that to my attention. They presented the rate to me based on my credit history. You mean to say that a potential lender doesn't sit down with a person and say, "Look, here's a problem. Could you explain it?" If it's in error, can't we go back to Transunion or whatever the company is that manages these documents, this data? I don't see a real true effort to try to be helpful to the lender when there are problems associated with the credit report.

MR. LEVY: It's a good point, Councilman. And, in fact, it just so happens that this whole thing has turned around pretty much completely very, very recently in the last six months, eight months, a year.

COUNCILMAN RIZZO: Since this bill?

MR. LEVY: No, no, no.

(Laughter.)

MR. LEVY: No, the bill hasn't done anything.

COUNCILMAN RIZZO: I'm just -- it's been a long day.

MR. LEVY: Yeah, I know. I haven't had lunch either. I figured that's the way to keep you short, don't give you lunch. Only being facetious. I'm sure we're all hungry at this point.

In any event, what's happening with the credit reports is -- just a quick history on it. At one point, that was all deemed to be totally proprietary to the repositories that hold that credit information and to Fair Isaac who created it in the first place and then there are others that have been created since then. And you couldn't get at all to a consumer. They didn't want you to give it to a consumer. We thought it was ridiculous that a consumer couldn't even know the number at one point. Well, what's happened since then, in addition to laws that have been enacted and so on, the companies themselves have finally turned around. Fannie Mae and Freddie Mac and Transunion among them and have said now all of a sudden it's great, give it to the consumer, explain it to the consumer, and so on. So it is no longer proprietary information. In essence, the kind of thing you're asking for now is given to the consumer regularly and you can discuss -- there are also, by the way, modifying it in a way in which you can make a quick change so that if you're sitting there and you're trying to make a loan and you've got a 580 credit scoring, you need a 620 to get that particular loan at the right price, you can show that, oh, we have to change this on the credit report because this in error, it's the wrong name or whatever and you make a fast change now.

COUNCILMAN RIZZO: Again, part of the education process, I believe that most of us sitting in this room are entitled to a free credit report. Maybe you can clarify that. I believe if anyone here wanted, because of a court decision again, some problem developed that most people are entitled to view that credit report.

MR. MORELLI: Councilman, most of the lenders that are members of our organizations, both of our organizations, provide free credit counseling and free credit reports for each of their applicants or proposed applicants at the time that their meeting has taken place.

COUNCILMAN RIZZO: I don't believe you have to wait for a loan application. I believe anyone in this room could call --

MR. MORELLI: They can do that on the outside, but talking about the mortgage industry.

COUNCILMAN RIZZO: Right.

MR. MORELLI: If you want to keep the subject within our universe, then each one of the people in our organizations have a responsibility, that's part of our ethics and our pledge and we sit with our consumers to review their credit scenario if there is a problem.

COUNCILMAN RIZZO: I appreciate that. But also I think it's also good for people to hear and know that they can call Transunion. I believe they're one of the organizations.

MR. LEVY: Yeah.

COUNCILMAN RIZZO: And request a copy of their credit report if they want one.

MR. LEVY: You can get them now that way, but there might be a moderate charge, I don't know.

COUNCILMAN RIZZO: I believe it's zero.

MR. LEVY: Nor would I have any problem, and I don't think the industry would, if there were -- if we legislated that and said that you have to give them free credit report once a year or whatever?

COUNCILMAN RIZZO: It would save a lot of headaches if people knew prior to coming to visiting you the status of their thank you so that they could deal with that and not delay the process.

Thank you, Madam Chair.

MR. MORELLI: Councilman, that's only one of the issues that is involved with the lending or borrowing scenario. You listen to a lot of your themes today, and a lot of your themes had to do with home improvements, contractors, and the like. And people signing things without reading them or knowing what they're signing. I mean, we have to somehow or another -- sure, individuals take responsibility for what they do, but you can't go out and you can't be signing papers, you can't be signing documents, you can't be entering into agreements of sale unless you are respected and you know what you're doing. So I think education is the primary issue that's come out of these sessions or issues that is we looked at today.

COUNCILWOMAN TASCO: How much information do you think a person who wants to buy a house should know?

The young lady who sat there and talked about that her mortgage was sold three or four times. It may be in the sale document, but it's probably in fine print and she can't read it. How much upfront information would you support giving to people who want to buy a house, your mortgage may be sold and if it is sold you have this right or it may go up. And, you know, we can get into the whole details of her case and why every time it was sold to someone, it went up. Why did it do that. I mean, how much information do you believe a consumer should have in a home transaction to protect him or herself? Because we know people get real excited. We have to put allowances in for being human. And people want a home and sometimes they don't always -- they get rose-colored glasses while they're going out to bite house and they don't have the ability to read the fine print. Some of us who may have a college degree can't read the fine print and we have to get lawyers to do it. So you're asking someone who may be a senior citizen who just don't have the wherewithal to do that needs this information upfront, the rate upfront in bold print so they can read it, so they don't have to have a magnifying glass to see it. All the terms are -- what are they getting into? What does your industry propose to do to help them ?

MR. MORELLI: All of the initial

disclosures are provided on the test application. However, let's step back just a little bit. Let's say an applicant goes through the process and then gets to the closing table and all of the situations that you looked at today were refinanced situations except for one. So let's just stay on the refinance situations for a second. So now we go to the closing table where the attorney comes to the kitchen table to settle the loan. From that point on, there are two things that happen. First of all, in a normal scenario, there's a three-day rescission period. So if I'm not happy with my transaction, I have the right as a borrower to cancel that transaction within three days from the time I go to closing, so this is after the closing. So if something happens, you go back home, you say, "You know what? I was supposed to get 8 percent and I'm paying 13 percent. My payment was supposed to be $400 and now we're paying $700." You have the right to cancel that transaction right then and there.

In addition, if it is a --

MR. LEVY: That's a Federal law

requirement.

MR. MORELLI: In addition, if it is a high-cost loan, there is also a disclosure, the Section 32 disclosure which details all of the costs involved with the transaction and, again, these deal only with refinanced loans; and if it is a high-cost loan, those figures are supposed to be disclosed and, again, the consumer has the right to cancel the transaction with absolutely no cost to the consumer within 72 hours after the closing.

MR. LEVY: A consumer gets every dollar back that they put up if they rescind under the Truth in Lending Act on the three-day period. They get every single penny back. In fact, not only will they get back what the broker or the lender paid, took in, but they actually get back credit report fees and appraisals. So that it actually --

COUNCILWOMAN TASCO: I'm sorry.

MR. LEVY: I'm saying if you want to see how strong that law is, when you rescind during three-day period, what you get back is not only the fees that the lender took, but you get back if the lender took, let's say, he charged you X dollars to pay for the appraisal and the credit, you get that back too. So the lender is now out of pocket. The lender actually loses that money because the appraiser and the credit report agency has to be paid. So all that money goes back to the borrower, the borrower is back exactly where they started.

But I wanted to add that something else that's been worked on now for we're into the second or third year of real effort on it is what we call mortgage reform. Now, we're doing that on a national level. It's the Mortgage Bankers of America and the National Association Mortgage Brokers has a mortgage reform package that is exactly designed to help on the mortgage side, obviously, to give better clarifying disclosures earlier to a consumer. And the idea is if you give a consumer more clear disclosures early enough, they can use those disclosures to shop other lenders so they're much less likely to get caught up with a predatory lender because now they'll be able to walk away with this mortgage reform package and see the numbers very clearly.

One of the things being proposed, for example, is what they call packet services where right now you can have each service separately, appraisal and credit and this fee and that fee and title and what-have-you. They're trying to come to a point where you'll get one cost. So you'll have the rate, the points, and cost. And that cost will incorporate everything, title and so on. And so now, the consumer has these three numbers, and theoretically, at least, they get them early and they can then go from lender to lender and say "Well, all right, this loan is 8 percent, 1 point, and the package cost is $900. What do you have?" You have three numbers and that's it.

So that's the kind of thing we're working on. And this mortgage reform package is going to be put into bill form, I understand, in 2001 and put into the legislative hopper and it's being worked on and pushed very, very hard right at the present time as we speak so...

COUNCILWOMAN BROWN: Good afternoon, gentlemen. You mentioned that enforcement, once you create an enforcement mechanism, who do you believe in your judgment is in the best position to enforce any kind of penalties or whatever?

MR. LEVY: Well, my belief is that you need someone to enforce that has the most expertise with respect to the industry that's being enforced against because otherwise you run into the danger of being involved with situations where you're going to try to enforce and you're going lose cases and you're going to have problems. And obviously, we have an agency that's expert within the Commonwealth which is the Department of Banking which has the regulatory authority now over the mortgage bankers and mortgage brokers and has had the opportunity to work with us since, as I said, 1989, 1990 to understand the industry which is very complex. I mean, it's not a simple industry to comprehend in terms of the way it operate and that's why you have to be so careful in regulating it because we're not on institution that takes a deposit and then makes a loan. We're people who have what we call, for example, just to give you a little bit of difference, you have with table funding parties. In other words, somebody will table-fund the loan. So what does that mean? It means that I make a loan with your money. Your money's being used at the table. You're not lending it to me, it's actually your money. That loan may close in my name and be simultaneously assigned to you. It may close in your name or I may be a lender that works with a warehouse line of credit and I have your whole line of credit and I make the loan with line of credit, the funds from the line of credit, then I pay off the line of credit when I sell the loan and then start all over again and make more loans. So even those two scenarios --

Then you've got the scenario of securitization where I take all these loans that I'm making and I put them in a portfolios of varying types and I sell in the securities market, then I sell to Fannie and I sell to Freddie and I have to comply with all of their requirements. I have to comply -- with FHA, I've got a tremendous regulatory authority there. I mean, you've got Federal Housing Administration, when you make an FHA loan, you've got a whole plethora of regulatory information that you've got to comply with, mortgagee letters and everything else. And they do have strong enforcement, and Cuomo has really pushed the enforcement side on FHA lending and they're getting tough. So to that extent, that's a good thing.

COUNCILWOMAN BROWN: Is that a State agency you mentioned?

MR. LEVY: The State agency would be the Department of Banking.

COUNCILWOMAN BROWN: To hear that then supports the intention that there has to be some legislation at the State level to ensure that little people don't continue to be burdened with this kind of --

MR. LEVY: If needed, I would say yes. I mean, that's the place to do it. What you do is another issue and that's why we discussed the kind of problems we have here. If we were going to do something on the State level, I would like to see something that requires education in the schools, number one. I think that's important. We've got to take on that obligation, and that's not easy to do because there are parties that are going to oppose you. But we need financial education in our school systems and we can't be afraid to fight for it and we can't be afraid to do it because that's the way you make a major impact going forward is education on financial issues then enforcement, enhancing the enforcement capability of the department, and it take legislation to increase funding and to give them the kind of staffing that they need to really make a difference. But those are the folks that would have the expertise in all of these areas that are necessary to understand these transactions.

COUNCILWOMAN BROWN: Either fortunately or unfortunately, depending upon which side talking to, we, the City, is now in a position where we are forced to reckon with the issue. You are a member of Professional Bankers Association, you mentioned?

MR. LEVY: Mortgage Bankers and Brokers.

COUNCILWOMAN BROWN: Has this issue ever been an agenda item at any of those meetings?

MR. LEVY: Yeah, it was recently and it's been and previously, sure.

COUNCILWOMAN BROWN: What was the reaction or the intent knowing that at some juncture members of your group would be looking at this legislation in their face?

MR. LEVY: Well, as we said, we're doing a couple things. Number one, and this is very, very current, we're looking at strengthening educational requirements and possibly adding some licensure requirements with regard to the people who are out there actually meeting with the consumers. Those are what we call loan officers. And we feel that we need to educate those folks, and we're talking very seriously about creating educational requirements addressing them in particular because they're the people out there meeting with the consumer and selling the product.

COUNCILWOMAN BROWN: What about the flip side for those in the industry who are engaging in these unethical practices, what kind of remedies or ideas have been expressed amongst your group to deal with your colleagues and your comrades who are engaging in this?

MR. LEVY: That's enforcement issue and that's what we brought to the attention of the department. We talked about that. As I said in September directly with the acting secretary, the banking, who indicated he was in favor of stronger enforcement and talked about it with some of the deputy secretaries and it's something we're pushing we are asking them to enforce the existing laws against fraud and against the kind of manipulation that was taking place as described here today in a much stronger way than it ever done it in the past. So that's a major effort on our part.

Then we have the mortgage reform effort on a National level. We have the registry on a National level. The mortgage brokers, I don't know if you were here when we were talking about that, but creating mechanisms where you can tell a good broker from a bad broker to make it simple.

COUNCILWOMAN BROWN: So you create the mechanism. What happens after that point in terms of informing consumers, if you will, of that reality, of that fact, because you in the industry may very well know that, but it means absolutely nothing to individuals who are most impacted by this. It means nothing.

MR. LEVY: It's a good question. What we would be doing -- a twofold basis, number one, what would happen is a broker, let's say, for example, if it were a broker would basically go out of business ultimately because the lenders in dealing with the brokers would have a mechanism they don't have now. See, we don't have a way to check on a broker right now or somebody doing business as a broker because most of our brokers are very good people and do a good job. So the ones that are not, we don't have a way to know that offhand. A broker may walk into a lender's office and say "I'd like to do business," and they may seem fine, but they may have a bad history. We're going to create that history in a way that you can access it. So lenders are going to stop doing business with the brokers that aren't doing a good job. If their loans are constantly going into default where people constantly complaining about predatory lending and that kind of thing, they're going to be out of business.

COUNCILWOMAN BROWN: So then the responsibility falls on the back of the lender to inform the consumer, that XYZ Broker is the wrong way to go?

MR. LEVY: Well, the broker wouldn't do business with you. The broker couldn't get a loan because the broker wouldn't be able to get a loan.

COUNCILWOMAN BROWN: Gotcha.

MR. LEVY: For that consumer. They'd go out of business, they couldn't exist. So that's one way we're trying to stop them, that end of it and then education of the consumer at the same time and reforming our disclosure laws on a Federal level so that you get this package of information early enough so you can shop among lenders. The best way to stop it, obviously, is to let somebody shop. If you go to two or three lenders and one says, "I'm going to charge you 22 points and, you know, 18 percent," another lender says, "I'm going to charge you 1 percent and 1.8 and a half percent," I mean, that's pretty simple and your just not going to do business with that 22-point lender. So with that kind of information, but it's got to be clear and unequivocal and presented in a way so that anybody can easily understand it. If you come up with this three-number system, that might do it.

COUNCILWOMAN BROWN: My final question is, so in your best estimation you do believe that the State regulatory agency is the best one to enforce?

MR. LEVY: Yes, I think so.

COUNCILWOMAN BROWN: Is that to suggest implicitly that we may be limited in what we can do at the local level for enforcement?

MR. LEVY: Well, I think it's -- yes, I think you may be limited, number one. Number two, I don't know that this kind of thing would add much in the way of actually accomplishing your goals. I think you'd accomplish it much more completely and quicker and more efficiently by working with the State and getting the State agency to do what it should do because they regulate already. I mean, they've got all the power that's already existing, plus the dangers inherent in now imposing additional regulation that don't exist on a State level upon people that now have to confront this and may say, you know, "This is too much for me. I'd rather do business in Pittsburgh and here and there and I'm just not going to do it in Philly because it's just too much."

COUNCILWOMAN BROWN: That begs me to ask the worst-case scenario. We know the State agencies may not see this as a priority. It doesn't affect their bottom line so they would never make this a priority.

(Applause.)

COUNCILWOMAN BROWN: We see that happening today with matters that matter to us in the City simply never make the radar screen at the State level. So given that potential reality, might you entertain sitting down with members of this legislative body to put in place enforcement avenues, since we know already that the State oftentimes doesn't see -- their priorities are not our priorities.

MR. LEVY: We'd work with you on that, sure.

COUNCILWOMAN BROWN: Thank you very much.

COUNCILWOMAN TASCO: I believe Councilman Cohen had a question for you but, he had to...

MR. LEVY: He went for lunch.

COUNCILWOMAN TASCO: Could you just wait a moment until he comes back.

(Pause.)

COUNCILWOMAN TASCO: Well, he's not coming back then. Thank you very much for your testimony.

MR. LEVY: Thank you very much for your attention and the time you gave us. We do appreciate it, and we appreciate your comments as well, and questions.

COUNCILWOMAN TASCO: Could we have Michelle Lewis, Ruth Gaskins, Khalil Walker, Joycelyn Kile. I think it's like preaching to the choir. Do you all want to testify? I mean if you have something to say, please come forward if you want to speak on this bill. Then anyone else here to testify that I haven't called, all right.

(Witnesses come forward.)

COUNCILWOMAN TASCO: Okay, all right.

Khalil Walker, Joycelyn Kile, Sister Ann Marie Weinglass and Allyson Hughes. You all might want to respond to some of the testimony you've heard from the lending institutions. I think we had the bill kind of laid out.

MS. LEWIS: My name is Michelle Lewis, and I'm here on behalf of the Northwest Counseling Service, Inc., and like you said, at this point sort of preaching to the choir.

Probably one of the things that I did want to mention, I heard a lot of talk earlier today about how all of this came about and whether or not there has been an inclusive process in terms of, you know, everyone being able to give their input. One of things that we did through the help of Councilwoman Tasco was to create the Philadelphia Predatory Lending Task Force which does involve State, Federal and local legislators as well as other government officials, private industry, community groups and residents that have all come together around this issue who are really sort of the focus is to bring all of these conversations into one so that we can come up with reasonable measures.

We have enjoyed for the last eight years a wonderful lending environment in the City of Philadelphia and we, obviously, don't want that is to stop. On the other hand, we have seen the proliferation of this predatory lending reach levels that no one in the room would like to see. And I think that not only the consumer people and the legislative people, but also the lenders have all talked about raising the bar in terms of eliminating or minimum reducing this kind of practice in these neighborhoods to say that we just won't have it in the City of Philadelphia, and I think we're all in agreement with that.

But I think at the same time, we need to all work together to come up with ways that encourage responsible lending in this city so that we continue to have the same kind of trend that we've had which has led us to be No. 1 in the nation for the last eight years through the development -- well, through the encouragement of the use of existing products and also the development of new products that meet this marketplace. I mean, if these predators can go out and study the habits of consumers and figure out what we're going to buy on a day-to-day basis, then I think we can do that, too, and develop products that are responsible that satisfy the needs of these constituents.

But I think education, as was mentioned earlier, is just a must. That's one of the most effective ways to get out the word so that people understand what it is that they need to do to avoid being a victim. And I know that this Council particularly -- and again, Councilwoman Tasco, I remember coming to her back in March when we initiated the fraud prevention series and we went from neighborhood to neighborhood. The Councilwoman came, expressed her own experiences with this, along with other elected officials, Congressman Brady, HUD went with us, and as went from neighborhood to neighborhood, each of the Councilpeople, it was just like magic because Councilpeople and other people joined with us in this effort, so education does work because when we came back, many of those seniors that we talked to the in trying to give them this information and education are calling back now and now, you know, they're telling us that they think their bank may have charged an extra fee or whatever. We just know, in other words, that now they are reaching out and asking for information before make financial decisions and why that's what we think really should happen is that we need to get together, make sure this education and information is available to the consumer so that they can make informed choices. But by and large, I think that -- I am in full support. Everything that this Council has done to support our efforts, I trust no -- I am convinced that any legislation that comes out of this body in its final form will be something that we will be proud of and will go down in history as something that we did to protect the consumers in Philadelphia. Thank you.

COUNCILWOMAN TASCO: Thank you.

(Applause.)

MS. GASKINS: Again, I'm Ruth Gaskins and Director of Housing for the Philadelphia Urban League. I want to address a couple of things, being a former banker. All due respect.

There were several things that was mentioned here from the Pennsylvania Association of Brokers and Mortgage Banker Association and Mortgage Brokers Association and Services and on and on. And they talked about all of the different acts that we have, the Fair Credit Procedure Act. They talked about the Settlement Procedure Act. They talked about the Home Mortgage Disclosure Act and on and on.

And let me tell you something, being out there in the trenches, guess what, those acts aren't doing a darn thing for those people who are affected by predatory lending.

(Applause.)

COUNCILWOMAN TASCO: I asked them that question.

MS. GASKINS: And I heard you. And we applauded you in the back because we know for a fact, one, yes those acts are there; and yes, I can tell you as an underwriter and as a former banker and as now a consumer advocate. Yes, they have laws and yes they have the most informed and the best and the most deceitful predatory people and salespeople out there in the world to tell these people, "Look, we need your money now."

(Applause.)

MS. GASKINS: Now, let me just say a couple things about that. There is a need, but all of the things they talked about here is in the regular mortgage portfolios. It has nothing to do with what these people are doing.

Now, I was down at the Federal Reserve and I heard the Governor speak, and I agree with all that you said that the Governor said, true. In dealing with regular mortgage portfolios, yes, those acts are there to protect those consumers. But what is it doing for the people out there in the trenches? What is it doing for those seniors? What is it doing for those uninformed homeowners and potential borrowers? Nothing.

First of all, those disclosures, they're receiving the disclosure the day before settlement. They failed to mention that. They're receiving a till that has absolutely nothing to do with what it's supposed to do. And don't talk about the APR. Let me tell you something, the one that we talked about here, they sent me three in one four-hour period and told me, "Oh, the broker made a make. Oh, the lender made a mistake." I called all the way to the State of Washington to find out what is this loan about.

Now, I really did not come here to do this, but I was listening to them and I'm thinking to myself, somebody need to say, Guys, that's not what's happening out there. They're not following those Acts. Those prevention measures that you have in place, they don't hearing you and they're not doing it and you know it.

Now, let me just say one more thing and then I think I'm going to stop. As far as this balloon payment situation, well, yes, there's a need for a balloon payment; yes, we put in the legislation. Do you know the reason why? How many low- to moderately-income people are going to fall into a windfall and get money so that they can pay it off in the next few weeks.

(Applause.)

MS. GASKINS: Let's go to the

prepayment penalty that they talked about. Listen, when you're talking about flipping a loan and you can add on all of these fees, this does not apply to what to I want to know, guys, what are you doing for your sub-prime lenders?

You know, and the truth of the matter is, these people aren't financing themselves. Where is the money coming from? Why don't you track it? You'll probably be surprised.

Listen, another thing. Education, I'm all about that. Yes, we need it; certainly, we need it. And we can't wait. And they're talking about time and how much time we need and what's going to happen, it may happen, we are going to do. This is, as Irv said, the exact same thing as crack cocaine is to most people.

Let me tell you, people are losing their homes on a daily basis, and it's my mother's peers and it's yours, it is all of ours. I'm watching young, single black women who have three to four kids dying for a home and just being ripped off daily. So when are we supposed to act on it? Are we supposed to wait until finally someone will come up to it?

I beg you if our legislation that we're presenting to you is not the right, then fine. Let's write the right one, but we can't wait forever to do it. We need to act now. And if they're saying we're going to experience lenders leaving the Philadelphia, well, I say good-bye.

(Applause.)

MS. GASKINS: Please, please, consider what we're saying to you. If it is wrong, then let's right it, but we cannot wait forever to do something about what's happening out there. That's all I have to say.

COUNCILWOMAN TASCO: Thank you very much.

(Applause.)

MS. KILE: My name is Joycelyn Kyle. I am the Director of Housing of ACORN housing. I'm here today to speak on predatory lending.

In our office, we have a program that I'd like to speak on, and that is the Home Emergency Program from Harrisburg. And we are just 1 of 16 officers office that are doing this program and we counsel at least five people a day who are losing thier homes. When you start times-ing this by a week and a month just for one office it's unbelievable. When I take time to review the file, five out of a day, three have been affected by this disease of predatory lending.

I have people that are coming into my office and we're at the point we all know about this predatory lending. It's out. We know it's a disease that's hurting all of us. They're around. They have a marketing piece that is absolutely unbelievable. I have to give them credit for that. I really have to give them credit because they have used strategies on the people that the people do not even understand. Paperwork is being signed days ahead or days behind. When you ask the applicants, everyone can't be lying about the same thing. They're asked to sign paperwork and then the word comes back with the figures on it. How is that? Everyone can't lie about that.

We have interest rates and points that when I look at the HUD-1 sheets, I just can't believe it. I have a lady here that's sitting here today, she has a credit score of 680. That's pretty good, I would say. It's better than mines anyway. And she was offered a 27 percent interest rate to borrow $3500. Can this be believable? This is something that we need to take time with.

We have people that are coming into our offices every day losing their homes because they cannot afford to keep up with the mortgage payments. So what's going to happen to these people? What are going to happen to these homes? What about new people that are coming and they wish to purchase homes?

One thing, ACORN and ACORN Housing, they have programs that they're bringing in clients. They're doing campaigns to see if we can unite people. Yes, education is important. We need this education, but we need to market the right way to do this.

We also need an ending solution, and I call it an ending lending solution. We have people who are here who are just about to lose their homes and there's nothing we can do about it because their credit has been really abused to the point that no prime lender wants to accept them at this particular time.

So there's lot of issue that is we would like to service and we would like to have looked at this time. And if it's anything that we can do in order to resolve these issues, we are here to do that. ACORN now is speaking with a lot of different banks trying to get them to understand exactly what is going on and that everyone is not going to come in picture clean or with excellent credit, but they do need help.

Thank you.

(Applause.)

COUNCILWOMAN TASCO: Thank you very much.

MS. HUGHES: Good afternoon. I'm Allyson Hughes. I'm with the Home Ownership Counseling Association. It is the trade association --

COUNCILWOMAN TASCO: And we want you to summarize this information, darling.

MS. HUGHES: I certainly will.

COUNCILWOMAN TASCO: It's been a long day.

MS. HUGHES: It is the trade association for housing counselors. We work throughout Philadelphia and the Delaware Valley. And as my counterparts have said here today, this is a crisis for us. We are dealing with people on a daily basis who are losing their homes. We certainly support this bill and we feel that in Philadelphia, we have to have a no-tolerance policy. This not only affects me at work, I can't tell you for the last few years, every time I have gone to some type of family event, I'm hearing a conversation about someone who has refinanced their home or gotten a home improvement loan that they cannot afford to pay and they are in crisis. And I need to be able to enjoy my holiday time without having these conversations.

This also touches me because I am a West Philadelphia native. The neighborhood that I grew up in, many people received those homes with programs that they had in early '70s where you were able to get the house, get the basic systems put in and you put in the cosmetic work. I have also talked to the people in that community who have since taken out these loans, they were mortgage-free. And if they had problems with their credit and those problems weren't addressed, they would have been better off by a lender saying no to them instead of adding this burden of a mortgage when the money was used to pay back utility bills, water bill, tax bills. They did not need to take a loan. What they needed was housing counseling. They needed advice. They needed information about their credit. They not only needed a credit report, they needed someone to interpret that credit report and show them how to get on the right track. It is not an easy process for someone who has damaged their credit, however, it is much better for many of our constituents who worked through to that process as opposed to getting a quick fix which is the predatory loan.

The issues that I want to also bring up today is that we can't afford to wait for State legislation. We need to act now. We also do need to look at the public education and do a public education and outreach campaign. I am an avid fan of the Home Improvement Channel, and I almost died when I saw Bob Villa, how convincing to see Bob Villas pushing a sub-prime.

COUNCILWOMAN TASCO: You need to call Bob Villa.

MS. HUGHES: I need to talk to Bob.

We also need alternative products. I think we need to look at a way that we can increase the funding for basic systems repair so that families are not left --

(Applause.)

MS. HUGHES: -- to look for loan products and become victims of predatory loans. We also have to look at the enforcement of this process and how we can work together. Since I've done the amendment and I've heard numerous comments here today, we would like to be a part in planning this process, but certainly we can't continue to wait.

COUNCILWOMAN TASCO: Thank you so much. We appreciate your testimony and thank you all very much.

(Applause.)

COUNCILWOMAN TASCO: We'll have the final people make their testimony and then we'll make some comments about this bill.

Is there anyone else here to testify? Dan Shah and Sharon Mar? They're not here?

COUNCILWOMAN TASCO: Is there anyone else who would like to come forward and testify, please come to the table.

(Witnesses come forward.)

MR. SHUMAN: Good afternoon.

COUNCILWOMAN TASCO: Would you identify yourself for the record, please.

MR. SHUMAN: Yes. My name is John Shuman from the Shuman Group Mortgage Company.

COUNCILWOMAN TASCO: From the who?

MR. SHUMAN: Shuman Group Mortgage Company.

COUNCILWOMAN TASCO: All right, thank you. Would you proceed?

MR. SHUMAN: My reason for being here and sitting through this whole meeting was the fact that today I heard a lot of information on predatory lending and I am a mortgage broker and I was born and raised in Philadelphia and I have got into this business to help people who look just like me to get a loan when they couldn't get them through banks and other places. And one of the things that I found out from this meeting today was that most of the people that you talked about were finance companies who have 18 percent interest and gouging interest rates and this that and the other. And if you create something that's going to put the small brokers out of business by limiting how much they can make, they already deal in small loans because our people deal in small loans. The average loans throughout the State is $100,000.

COUNCILWOMAN TASCO: Have you read the bill?

MR. SHUMAN: Pardon me?

COUNCILWOMAN TASCO: Have you read the bill?

MR. SHUMAN: No, I haven't.

COUNCILWOMAN TASCO: You need to read the bill.

MR. SHUMAN: Okay, all right. But anyway, I still would just like to say that we are about trying to help the people in the community, not put them out of business, not take and gouge them for their money. And that's my statement that I want to say. And one of the reasons why I said that was because most of those consumer finance companies that you talked about earlier today United Companies, Beneficial, GMAC, all of these companies have tacked on things onto our lenders. I have dealt with a lot of these companies myself. And what we try to do is help the people in our community get a loan that reasonable and everything.

I am a member of the National Association of Mortgage Brokers and the Pennsylvania Association of Mortgage Brokers. And we do have a rules and we have 72 hours to give them a HUD-1. We also have to give them disclosure statements once they take a loan application that they can read take home with them. Also, there's a 72-hour rescission period that once their loan is done, they can look at all of the paperwork for three days before they can make a statement saying that this loan is -- I want to sign this loan. They come back and they sign. And if they decide they don't want to go through with it, they can go home. So there's a lot of things in place that the consumer read and learn from and we need to probably put things in place.

And you talked about the Credit Bureau. The Credit Bureau is the worse predator of all because the Credit Bureau has erroneous information on people's credit reports and you cannot get it corrected. And we have done this and worked with people and did everything. We don't charge any application fees. We don't have any monies up front. There's no monies that we get until the loan closes. So we do all of this with the consumer being able to walk away from the table and we not gain a dime from it. And those are just some of the things that I wanted to say.

COUNCILWOMAN TASCO: This bill is not designed to hurt people who are reputable. It's only those people who are unreputable who will be hurt by this bill. If you're doing a reputable business, you're not going to be hurt by this bill. It's only to protect those consumers who deal with unreputable lenders.

MR. SHUMAN: Thank you.

COUNCILWOMAN TASCO: Yes.

MR. MCGLAWN: Good afternoon. I'm Reginald McGlawn with the McGlawn & McGlawn. We're mortgage and insurance brokers in the Philadelphia area. Our company has supplied approximately $6 million in loans last year. We're probably one of the largest African-American brokers in the City. Let me give you just you another viewpoint of what McGlawn and McGlawn. As far as education is concerned, our family's very much into it. We have paid for educational programs for lending throughout the City. We've represented the African-American historical and cultural museum, let everyone in free and brought in lenders to teach people how to buy and refinance their home. At McGlawn & McGlawn we only finance people with credit problems. We do not -- as a matter of fact, if you have good credit, we are refer them to outside sources, a multitude of outside sources and counseling.

What I see wrong with this bill coming into the City as it is now is that --

COUNCILWOMAN TASCO: Have you read the bill?

MR. MCGLAWN: Yes, I have. It won't hurt me per se as a broker, no, it won't hurt me. But what it would do is stop me from pursuing people in the City for loans. As far as people say getting 10 percent for a loan, that doesn't exist anymore. That's called a Section 32 Loan which most lenders will not allow anymore. And the Section 32 loan gives you four days before you sign the document to read it, three days after you sign it, and then if you decide you don't want it, it's null an void. But what happens to a person like me, my company spends over a hundred thousand dollars in advertisements in the City of Philadelphia, Daily News, television, every newspaper.There we do not want you if you have good credit, but if all the moneys I can make off a loan, which is 4 percent, of $17,000, I can't I can't afford to do business in the City of Philadelphia.

By the way, predatory lending was not made for African-Americans who are sitting behind me. It was made for white people. White people, that's where predatory lending comes from. If you look in North Carolina and New York, they have $200,000 brownstone homes in New York. They have $100,000 homes in North and South Carolina where these laws are enforced. Now, in North Carolina for $100,000, I can live off 4 percent of that; $200,000, I can live off 4 percent of that.

COUNCILWOMAN TASCO: Could you tell me what is in this bill that prevents you from doing business in the City of Philadelphia?

MR. MCGLAWN: What happens is there are lenders -- the lenders that we're doing business with our subsidiaries of giant corps., the bill that you will pass, as is, right now, it will set precedence for someone else. In other words, there is no law in the State that says we cannot charge 10 percent on a loan, but there are some State provisions saying that you have to give out these documents. So most lenders will just, even though not law, they will follow precedence. And what goes on here will make other lenders follow precedence, the way it is right now. No, they won't stop me. Trust me, the bill wouldn't even hurt my company at all. But if the companies that I'm doing business with will tell me, "Reggie, now we're not going to pay you what we paid you before on the loan." Then I moved.

And now some people behind me say "good." I'm torn. By the way, I've never had people testify. A lot of people have given loans that I have seen behind an Acorn.

Here's the other thing that happens here. Let me move out of the City. Not me, and I'm not threatening you move, I am forced. Let me move our business out of the City of Philadelphia. The Sheriff's Department sells 150 homes with these liens are to First Union at a sheriff's sale because of delinquent taxes. If I move, who's going to service those people? These are people who will lose their home in the Sheriff's sale because they're delinquent on their taxes. These are that the City no longer kept but they sold to an outside agency.

And here's the big thing that really gets me. You don't see any banks in this room because they don't care. They want, they want this ordinance to go through as is so, therefore, if it goes through, people like myself --

COUNCILWOMAN TASCO: I'm still trying to understand what is wrong with this bill that would put you out of business? I don't understand it.

MR. MCGLAWN: No, you don't put me out of business. The 4 percent will stop me from doing business in the City of Philadelphia.

COUNCILWOMAN TASCO: The 4 percent over the treasury's threshold.

MR. MCGLAWN: Yes, ma'am. But when you say 4 percent over the Treasury, when a loan goes into play you have --

COUNCILWOMAN TASCO: You can charge as much as you like within the federal law. This bill does not stop you from doing that.

MR. MCGLAWN: Again, what happens, you set precedence for -- say, for instance, this bill is interpreted different ways. I'll go one step further, one step further to this here, the bill, and what we can charge.

The Pennsylvania Association of Mortgage Brokers which spoke here today here, coming here to prevent this bill from going into play or saying let's modify the bill. I'm going to say they're my colleagues. I want to let you know now, they really have, if I'm not mistaken, this is the first time they've ever come to Philadelphia. I live here. Their reasons for coming here is to prolong this ordinance to go into play so that they can further study it themselves to see what effect have on the State.

The great thing you said was, yes, this might set precedence for the state. It affects them at the State level. It affects us as individual brokers at the City level because whatever you do sets precedence for the next or, should I say, for the higher up or the State.

Now, one more thing if I could go into where I was going. McGlawn & McGlawn has gotten together a group of people a little over a year ago and we got $4 million together. The $4 million we got, we were going to start a bank, but we needed someone to securitize this money so that we wouldn't have to charge higher interest rates.

Councilwoman, we called your office and got no response. We called a few other politicians, got no response. We talked to

ACORN. We asked ACORN, look, we can get this money together, securitize these loans. You won't have to worry about a high-interest loan. I was told by ACORN that, no, that's not our business.

My company also got together, we got with ACORN. And I said, ACORN, look, all of the loans that you have that are bad loans, let me look at them. I'll go over the loans. I won't charge you a fee. We'll do the loans, you just cannot let anyone know that McGlawn $ McGlawn is involved with this. We were also told no. So here I'm looking at both sides here, I'm looking at City Council, yes, there's something should be done. What should be done? I believe on your advisory board of predatory lenders there is not one mortgage broker on that advisory board.

COUNCILWOMAN TASCO: That's not true.

MR. MCGLAWN: What mortgage broker is on the board? Bankers, but not brokers.

COUNCILWOMAN TASCO: Well, you can be on the task force.

MR. MCGLAWN: I want to be on the task force.

The only think I want look at, look at the HUD-1, your HUD-1 that you showed me there earlier today. Someone talked about the HUD-1 and all of the fees on the HUD-1. I am a broker. I have an attorney here show you this HUD-1. The first thing they say the mortgage company charges 10 percent and broker charged a fee that was on that HUD-1. That is illegal. That's a federal offense. And to me I'm wondering why the attorney was not bright enough to know that there are law which is broken by looking at the HUD-1.

So therefore, yes, I'm going to sum this up because I know it's getting late. We need a task force, yes, we do. We do need an ordinance, yes, we do. But we need to make it so that it's good for the consumer and it's good for the lender because one more thing, redlining as you know it will exist in Philadelphia like you've never seen it before. It has, when I came into business. McGlawn & McGlawn came into business eight years ago. They would lend money in Philadelphia because of your zip code. Now, and I deal with a lot of lenders, they won't lend money because is it near the houses that are falling down? The row homes. Before it didn't matter how many vacant homes you had on your block. Now it matters, whether they're going to give you any monies or whether you have two, three, four vacant homes on your block. And, no, these lenders are people that you don't know and you will never see. But I bet you they lend in Philadelphia than your First Unions, your Mellons, your PNCs or any of the lenders, they have the ability to lend funds where no other lender that is doing business in this city will or will or can lend.

COUNCILWOMAN TASCO: Thanks.

MR. COX: My name is James Cox. I'm president of a company called New World Mortgage. We're actually based out of Lansdale, but we do probably half of our business in the City of Philadelphia.

Basically, to kind of tell you what we do as brokers. Brokers are here the to provide option to see customers who normally don't get options. Normally they're either denied credit based on the credit situation because of the value of the house because of income which is unreportable and yet they make. Maybe it's under the table. We get loans for people who normally can't get them. It's a valuable service. It's a valid service. And for that, we make a fee, a broker fee. Just like lawyers make a fee for basically handling a case, Realtors get a fee for basically buying and selling a home, we make a broker fee for placing a loan using our expertise ro get a loan done, which beforehand are not going to be closed.

You talked before about the effect that this type of legislation would have if it would have any effect. If you look at North Carolina just from the immediate effect of what the legislation was there, several lenders actually pulled out of doing loans in North Carolina that we've used a lot. Companies likes Saxon, Advanta, Advanta right up in Blue Bell, Sally Mae Financial, all of these companies stopped doing business in North Carolina.

COUNCILWOMAN TASCO: Why, why, why, why, why?

MR. COX: Why? Because the regulations in North Carolina were so onerous the fees restricted to such a point that it became untenable to actually do business there.

COUNCILWOMAN TASCO: It became unprofitable?

MR. COX: Yeah, it's just unprofitable. I just made no financial sense for them to do that.

COUNCILWOMAN TASCO: The banks stayed, right?

MR. COX: Huh?

COUNCILWOMAN TASCO: The banks didn't move out of the State?

MR. COX: No, but the bands aren't lending them the money. Otherwise, people would have gone there in the first place.

What happens is when people are not able to get the money from the banks, they come to brokers. That's the role that we fill in terms of trying to meet the needs of the people that the banks don't meet. As an example, what kind of real effect does this have, two examples --

COUNCILWOMAN TASCO: The banks can't -- is the reason the banks won't -- never mind.

Go ahead.

MR. COX: Just as two real examples of what kind of effect this would have in North Carolina to people living there. Sally Mae financial, they're actually the only, to my knowledge, the only sub-prime company that does not charge prepayment penalties, okay. Prepayment penalties are a big problem. There a problem for our clients, they're problems for us. But because they no longer do business in North Carolina, those people do not have access to that lender because it's not tenable for them.

COUNCILWOMAN TASCO: Have you read the bill?

MR. COX: I've read some of bill I've read some of bill.

Again, my concern is to explain where we're coming from and to try to make sure that we're all on the same page.

COUNCILWOMAN TASCO: Well, what we want to know is what do you all are willing to do to help protect the consumer and to stay in business and how far are you willing to go to protect the consumer and feel that you can still do business in the City of Philadelphia? You don't have to answer that today, but that's a question I want answered.

MR. COX: The fact is when people were mentioning earlier that there are good brokers out there, I feel like I'm one of them. To be honest, every time I do an application -- and being here today, just to let you know, I've missed three appointments in trying to talk to you on this matter. At each appointment, I have packet of papers I go through. There the same disclosures that they see at closing, the customers do. Normally, you're not required to disclose all this up front. It's all a lot of excess information, but we try to over-disclose. We see that as our role as informing the customer. We give them a good faith, we go over all of the disclosures that they'll likely see at closing. We're up front with everything. The fee that we charge, if it's 8 percent, if it's 6 percent, whatever it is, it's there in writing. If it's going to be a rate of 11 percent or if it's going to be a rate of 9 percent --

COUNCILWOMAN TASCO: That's basically

what we're trying to do is protect the consumer. We're trying to do what you are doing.

MR. COX: I understand that. You have to understand that there are actually mechanisms in place and those mechanisms have to be used.

COUNCILWOMAN TASCO: Well, evidently, it's not working.

MR. COX: But we're out there doing this and actually making the effort to inform the consumer and do our job. If there are problems, and there are problems, they need to be taken up with the Pennsylvania Banking Committee.

COUNCILWOMAN TASCO: We'll do that, too.

MR. COX: Hmm?

COUNCILWOMAN TASCO: We'll do that, too.

MR. COX: Well, that's what I was saying. Just as an example, there was a customer that called me last week. She was dealing with a broker in Jenkintown. She was purchasing a house in Sellersville. This broker basically spent an entire month -- first of all, the broker gave her a handwritten pre-approval that basically he handwrote himself for a loan that she was approved to go to 90 percent of what the house was valued at. This woman put down $20,000 on a house that was a foreclosure property that she was trying to purchase with the assumption that she was going to get the financing. Come to find out three days before closing, he said, "Oh, you need to come up with more money. She had no more money. She never got any disclosures. She never signed anything. I mean, there was one problem after another in terms of real violations of the types of laws we've talked about, RESPA, Home Equity PROTECTION Act. All of these are things that need to be addressed.

What she should do is contact the Banking Commission. This is what I tell her. In the meantime, I'm trying to place her loan so that she doesn't lose her 20,000. I'm trying to help her out. But the point is there are brokers like that and there needs to be some sort of remedy. There needs to be enforcement. But in the meantime do not crucify everybody in terms of trying to get to the problem apples that are in the barrel.

I've rambled off into left field, so I'll leave it there.

Next.

COUNCILWOMAN TASCO: Thank you.

Would you identify yourself for the record, please?

MR. CORMENY: Thank you, Madam Chairman. My name is George Cormeny. I am with All First Bank, headquartered in Baltimore, Maryland, with operations which stretch from Northern Virginia through the District of Columbia, the entire State of Maryland and the central part of Pennsylvania on up and including as far northeast as Allentown. We as an institution do not have any branches or facilities in the City of Philadelphia, but I appreciate your taking the time to listen to me. I think I'm the only bank that is here and speaking today.

I come to you because of several reasons. Number one, I was born and raised in West Philadelphia. I have a soft spot in my heart even though I've been in Maryland for almost 30 years. I am the corporate CRA officer for Allfirst. I'm responsible for our performance under the Community Reinvestment Act, and in fact, our entire community development activities throughout our company's footprint. And, you know, I guess the first thing I think I need to do is say here that not for my company, but for a lot of people that have done this to the victims that have come forward today, you all are really owed an apology. I think you've been treated terribly and I want to acknowledge that.

(Applause.)

MR. CORMENY: There's got to be a little bit of sympathy in your heart.

We have what we consider to be a good corporate record. In D.C. we help fund our community development financial institution to serve low-income and some moderate-income communities. In Baltimore and throughout Maryland, we're active in our support of community development organizations, housing counseling clinics. We think education is absolutely a critical component to the consumer's ability to make a good choice.

In Pennsylvania, we have taken on three cities, Lancaster, Carlyle, and Harrisburg, and we have a continuing program where we put in $100,000 per annum in each of those communities which is leveraged up 10 to 1, so amounts to a million dollars a year going into those communities and that commitment is for ten years. And we do that because we think it's important to show a long-term stretch of hope to the development of a community, and Lancaster just happens to be Hispanics, it's in the South Duke street Corridor, but our end game is to help stabilize those neighborhoods and, obviously, to end up doing some business with them. We would like to see the mortgage loans for rehabilitations.

Let me just offer one brief comment here that it's been in the press, certainly, in Maryland and has received some recognition in national publication that there was just a terrible experience of home flipping and predatory lending that took place in Baltimore, Maryland, and I have attended hearings on it. I haven't spoken as a participant in any of them, but I've been a very intense observer.

Many of the instances outlined here today also took place there. The question in Maryland arose is how do we deal with this and how do we try to stem the flow of the blood.

A member of the State House of Delegates, Carolyn Kirsiac (ph) from Baltimore held hearings with lenders. She held hearings with regulators, had HUD in there on several occasions, and she was instrumental in introducing and as passing a bill in the Maryland General Assembly. And just by way of background, we in Maryland have something called a commissioner of financial regulation at the State level. I know you have a Banking Commissioner here in Pennsylvania, but our extends out and has jurisdiction over the mortgage brokers, them mortgage bankers, the check cashers. If not licensed, you can't cash a check. You cannot do a pay-day loan. She also has the banks, the savings an loans, the credit unions that are State chartered, and the list goes on and on. But suffice it to say, she has a wide ranging scope of responsibility and there was a bill that was put forward to give her real control, real authority including cease and desist orders, et cetera. And I have been on the road since I heard of this hearing last week. I apologize. I have nothing with me that I can give to you, but if I could be helpful in providing you with any kind of sample legislation like that, I'd be happy to do so.

I bring this up because if you do something in one municipality, a city, a county, a borough, whatever it is, and there is a following of suit across the State and they differ a little bit, we as an institution who will assumption some day, hopefully, be able to count all of Pennsylvania as part of the area that we serve. We're hard-pressed in a mortgage operation to know what are the rules here, what do we have to do there, how many cities do we need to report to as to our practices. So again, I'm being selfish in my statements, but it gets to be an administrative difficulty for us.

Let me also just offer some comments. I did have an opportunity to read the bill today, and there are a couple of areas that I'd identify.

First of all, there was counsel here earlier, and I apologize I don't recall his name, but he did make the statement that none of the depository institutions who were engaged in this activity. I find it sort of incongruous to say of those entities, gee, if you have a contract with the City, then you have to sign an affidavit and say that you're not doing these things. It may not be a depository contract, it could be for cash management or investment services or another type of service, but you have to do that. My point is, the bad guys that are doing these kinds of activities don't have any such requirement. And we haven't been, but we would have the requirement secondly that the depository institutions are required to report loans by census track, be they minority or non-minority loans, whether they be low- and moderate-income loans or loans that don't fall into that category. We already do that. We do it at the examination levels. That data is available through HMDA reports, the Home Mortgage Disclosure Act, in reports of our examination for

CRA. That's a public document. We frankly prefer not to do to have it again. And, you know, if we're doing it in one place and it can be made available, it's just an added paper burden.

The last thing is the investment where the municipal retirement system would be shielded from investing in an entity that involved in this activity. I would suggest you probably don't have all that many public companies that would be engaged in this kind of thing that you would even want to invest in without it, but that's your call. I respect that.

Lastly, and I don't know the answer to this, whenever -- because I'm not a mortgage professional in my daily work. But whenever you create a standard and the standard is different. It's my understanding that in the mortgage market, you then create a separate standard that you have to deal with in selling to a secondary market. And that in turn can make the primary mortgage more difficult to sell because you're dealing with that add standard that doesn't conform to a nice, tidy, well thought-out, easily conceived package of loans. And with that concern I have is, and I don't know the answer, there are penalties for engaging in certain activities as I read them here and I've looked at other cities' bills and I don't know because I'm not an attorney whether any of that liability travels to a purchaser in the secondary market. I don't have an answer for that question. I know in one other case it sure appeared to. And I haven't had the time to study your bill, but I just through that out as an observation that in some cases they appear to travel. And again, that would have a chilling effect for a secondary purchaser.

With that, I want to thank you for your time. I'm here. I came up for this. I'm happy I did. And if I can work with you or at Council or perspective in any way, I'd be happy to do it. Thank you.

COUNCILWOMAN TASCO: Thank you very much.

MR. COX: I'd like to bring up another point. There was some discussion earlier about credit scoring and about the effect that that has on lending. Credit scoring is really, and I know this is kind of an aside, but really it gets to the root of what people are charge in terms of rates. Credit scoring is really dictated by the credit agencies and in a way that a lot of times doesn't really represent the true risk of a person. I mean, it's purported to if all of score of 620, you're A credit. You get 7.5 percent rate, you can go up to such-and-such level of equity in your house. Pretty cut and dry, pretty clean for the underwriters, not really a lot of thought to put into it. What happens, though, is and I'm sure Reggie's seen it a lot. I've seen it a whole lot. People with three pages of charged off credit cards, collection accounts, having scores of 640. By the same breath, you have people with spotless credit, never being late on a payment, let's say they have four pages of credit cards, they have a 520. The person with the 520 score can borrow up to 75 percent of what their house is worth at rate of 13 percent. He's never missed a payment. It's supposed to be a guide post, and yet it's really -- that's what dictates rates. We as brokers, we deal with the marketplace. This is what's out there. I've actually gone to D.C. to try to get some information, figure out what can be done as far as get hearings in D.C. about this. Nobody's interested in doing it, obviously because I don't have a lot of money.

COUNCILWOMAN TASCO: You should talk to Congressman Bob Brady. He's on the task force.

MR. COX: Again, I'd be welcome to do whatever it takes to get some answers, but at any rate, that's just another item that goes into the dynamics here of what is fair lending. You know, is it fair for person to make their payments on time and yet not be able to get the rate that he really deserve? No. But these are things that are not in our control and which really need to be looked at so...

COUNCILWOMAN TASCO: Thank you.

Thank you very much. Let me just say this before some of you leave. We're going to pass this bill out of committee today. However, we will have conversations with those of you who came to me earlier who did not know about the bill, had not had an opportunity to read the bill. We have had the benefit of this hearing. The bill will be held until we can work out and take into consideration some of the comments that have been made here today. Some of the Councilmembers have comments. They want to look at the amendments. And prior to making a final vote on the bill, we will certainly meet with all of the individual parties or certainly those of who you want to meet, we'll sit down an talk about it and go over it point by point and see how we can adjust it so that you don't lose business and leave town, but at the same time, we are going to protect the consumers in Philadelphia. Now we will make that very, very clear.

(Applause.)

COUNCILWOMAN TASCO: We're going to protect the consumers in Philadelphia, but at the same time we don't want to rush to judgment and do something that's going to help us on one side and hurt us on another side. We've heard you. We've heard the consumers and we've heard you, the business people. And we want to see what we can work out. But we, in the end, will have a bill that will, hopefully, can work for everybody. But it certainly will work for the consumers. So I am going to adjourn this public hearing. We'll leave the public hearing and go into the public meeting.

Could I get a motion to move the bill out of committee? The meeting is now in public meeting.

Wait a minute. Just a second. Excuse me. Back up. Let's go back to the public meeting.

We have the amendments that were offered by staff and we have to read those amendments into the record, Which will be very, very brief. They are already in the bill, but we will note them.

(The amendments read into the record. See attached.)

COUNCILWOMAN TASCO: Could I get a motion for the amendment and the amendments will be submitted to the stenographer and I'd like the motion to include that the amendments are to be recorded as presented in case there were any misreadings.

COUNCILWOMAN MILLER: Madam Chair, I move that the amendments as recorded be voted out of this committee with a favorable recommendation.

COUNCILWOMAN TASCO: Do I hear a second?

(Duly seconded.)

COUNCILWOMAN TASCO: There has been a motion to accept the amendments as will be presented to the stenographer just in case there may have been some mistakes during the reading. All in favor will say aye?

Any opposition?

There being none, the amendments are approved.

COUNCILWOMAN TASCO: Now we'll go into our public meeting. And could we have a motion to adopt the amendments?

COUNCILWOMAN MILLER: Madam Chair, I move that this committee adopt the amendments.

COUNCILWOMAN TASCO: Can I get a second?

(Duly seconded.)

COUNCILWOMAN TASCO: It has been moved and seconded we adopt the amendments.

Could I get a motion. All in favor will say aye.

Any opposition?

The motion is passed.

Could I get a motion to pass this bill out of committee, as amended, with a favorable recommendation and a suspension of the rules.

COUNCILWOMAN MILLER: Madam Chair, I move that this Bill No. 000715 be reported out of this committee with a favorable recommendation, as amended, with a rules suspension to permit first reading at our next Council session.

COUNCILWOMAN TASCO: Could I get a second?

(Duly seconded.)

COUNCILWOMAN TASCO: It has been moved and properly seconded Bill 000715, as amended, be reported out of committee and with a favorable recommendation and with a request for a suspension of the rules so as to be read at the next session of Council.

Could I get a second?

(Duly seconded.)

COUNCILWOMAN TASCO: All in favor?

Any opposition?

There being none, this bill is reported out of committee as amended.

(Applause.)

COUNCILWOMAN TASCO: Thank you. 4 $55.

For the record, this bill will have a first reading on Thursday. However, final passage cannot come until January when we come back from recess. So that gives us time to meet with all of the interested parties so we can work out whatever amendments we might want to propose on this bill. And we will include the entire Public Health and Human Service Committee in that discussion.

Thank you very much. This meeting is adjourned.

(Adjourned at 5:30 p.m.)

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C E R T I F I C A T E

I HEREBY CERTIFY that the foregoing proceedings of the Council of the City of Philadelphia of Monday, December 11, 2000, were reported fully and accurately by me, and that this is a correct transcript of same.

RE: COMMITTEE ON PUBLIC HEALTH AND PUBLIC SAFETY
BILL NO. 000715

______________________________________,
JOSEPHINE CARDILLO,
Registered Professional Reporter