



Session 5C:

Asset Preservation: Tackling Predatory Lending through State and Local Policy

Moderator: Stephanie Upp, Associate Director, EARN

Panelists:

- Kevin Stein, Associate Director, California Reinvestment Coalition
- Cesar Trelles, VP of Corporate Community Development, Union Bank of California
- Victor Ramirez, VP of Community Development, Citibank
- Bernie Wilson, Director, H&R Block (did not attend)
- Peter Kuhns, Head Organizer, ACORN (did not attend)

KS: Predatory Lending continues to grow; now a \$500 billion annual industry - 25-50% of that industry is in CA. That amounts to \$2 billion equity/year stripped solely from predatory mortgage lending. Creates economic apartheid, wherein the regulated financials deserting are replaced by predatory institutions. At the policy level – incentives running in the wrong direction and it is a complex problem. Big business involved in these markets - pooled and sold and Wall Street. Legislation: certain practices not OK. State anti-predatory lending law is moderate, but local governments could pass stronger ones – such as the one which passed in Oakland. Supreme Court of CA – legislature did not intend to allow localities to do so. As such, the one weak law we had left is now gone. Strengthen state law? We're not in a good position. Insufficient legislation – not effective industry self-policing, industry opposition, etc. Looking at standards for secondary market is key – incentives.

SU: Subsidiaries of financial institutions do engage in predatory lending

VR: CitiFinancial/Mortgage – examples of products to see what Citibank is doing. Institutional level – trying to address high fees, costs, balloon payments, etc.

United Way of LA: site visits at 14 homeownership agencies – not all are created equal. Post purchase support required for two years – asset protection/preservation. Only two with formal programs – LA NHS is one of them, but we need more. Products are available – are they good enough?

Subprime vs. predatory lending – everyone can't qualify for prime, so we need to distinguish that subprime is legit. It serves an important piece of the market and we wouldn't want them to all go away

KS: Support subprime lending –before, credit wasn't available in certain areas. Now it's too available in East Palo Alto – To the extent that it reflects risk, that's fine. But people with good credit are getting subprime loans. Now that H&R Block is trying to be a savings and loan, perhaps there is room for some leverage there. Generally there is no interest in making sure they don't deserve a better loan somewhere else.

Margaret: There is often a prohibition, when they want to move them up.

Clarence: Need ability to look at data, and what obstacles they preclude.

KS: Industry publication - New Mortgage data (HUMDA), for the 1st time it will include pricing info. Disproportionate impact on certain populations – we'll see. Have to tell public reports have to be qualified, lots of factors affect, but lenders don't want to give that data. NC – self-help credit, studies with more detail. Lenders quick to challenge data but haven't offered alternative information to disprove it. FCC-



data, investors entitled to lots of information. Prime/subprime: why do they look so different in loan provisions?

LA: Like a contract of adhesion – abusive. Education is a key tool – awareness of loan process/products. The answer lies in understanding the terminology/consumer education. That’s where we should attack it – then they can question it themselves.

VR: Knowing as a consumer that you have the right to ask questions is the key.

Andy: Onus on the customer doesn’t the industry have some responsibility?

LA: Yes but education is important as well.

Andy: Recognize that it is not an equal playing field - Everyone has different interests/obstacles.

SU: Reframe the questions: Do you have investments in subprime and predatory lending – if so, what can we do?

VR: CitiFinancial – nonprime for certain market. Policies and procedures: self-policing re: predatory lending. Citi compensates employees to put people into lower rate loans. They also do reviews of all the brokers – 1900 recently suspended for not being up to date. This is a “best practices” as industry leader in licenses.

KS: Home Mortgage Disclosure Act; Data Set. When Citi bought out Associates (bad lender), they looked at current clients/customers, and got them into better loans
\$250 K people - \$70 million. Subprime could’ve been prime – should be of concern.

VR: Encourage people to refinance – benefit of rate lowering when payments are regular/

CT: All of us community advocates – balance with bank advocacy. Look at check cashing, predatory lending, and cornerstone project. Attaching to a bank Technical Assistance services – financial education by Valley Financial Education at a new bank branch. Cash & Save division – CRA driver – relationship and credit needs. Employs three areas of focus:

- 1) Community education
- 2) Affordable housing
- 3) Financial Education

Community economic opportunity mortgage – affordable, flexible. CRA real estate brokers. Check systems criteria – relaxed to let people on check systems open accounts if they had a silly reason to be there – just needed some financial education. The goal is to move people from check cashing to regular accounts, as a strategy to introduce themselves to low income community. Cash n Save also carries money orders, bus passes/tokens, and traditional banking products.

SJ: Create the continuum at Union Bank. Important to note that check cashers aren’t all evil, and we need to figure out the right blend of services.

Clarence: Environment that allowed the check cashers in – leaving the community by mainstream institutions. “Neurosis” – lots of financial institutions don’t want to touch check cashers because of their bad reputation. May need banks back into this arena



LANHS: Could we do this with a branch vs. a Cash n Save? What if mainstream institutions simply focused on Financial Education – concerted presence in communities using these services?

Cesar: People need to get used to transitioning

NHS: Credit as barrier, can't participate in mainstream. Restrictive services to minimize risk. Current criteria/guidelines for participation too strict

Cesar: Disservice not to do due diligence on the part of the bank, must understand that.

NHS: Don't have Cash n Save everywhere; model doesn't happen everywhere – why?

SU: No relationships/education over time with banks - How do we get these banking models back to communities so there can be an expectation?

Gwen: Cost issues – not education but income. If account's not helping them move along the continuum, what are ways around the predatory stuff to cut costs?

Linda: CD Tech project - FDIC moneysmart, Stored Value Cards. Don't write checks on the account – opportunities.

Gwen: Other ways institutions can integrate – part of mainstream practice.

Andy: Policy – carrots and sticks to incentivize growth of transitional banking – industry

Kevin: Work with financial institutions, for example, accounts that don't allow you to withdraw funds. Look at best practices. What about forcing H&R Block to stop refund anticipation loans as they become a Savings & Loan? Look to Calpers – need to align ourselves with responsible investor groups

NHS: It's good business to work in low-income communities, as evidenced by the return of the mortgage & grocery industries to areas they had fled.

New America – with Shorebank – drafted ideas of carrots and sticks at the Federal level to help institutions get over the R&D hump. Service test of CRA – receive weight – be explicit in regulatory mandate.

Cash & Saves – achieving profitability and conversion rates – why aren't we seeing more of this? "Unbanked" misses the subtlety of consumer behavior.

Cesar: Conservative about in store banking

US Bank: Recent inner-city, low-income area expansions – many of the new branches are in grocery stores. Bank uses "Don't borrow trouble" – Freddie Mac, educational efforts and resources. Also 2nd chance checking – on check systems, people can open accounts

Margaret: State limited on what they can do. OCC told the state to go away. Challenge - federal level fight, less responsible translate

SU: We need to work together to determine ways to put pressure on banks to better serve CA communities. We need to continue to strategize together with CRC as the lead.