

**Senator Sarbanes**  
**Introduction of “Predatory Lending Consumer Protection**  
**Act”**  
**April 12, 2000**

I want to thank Representative LaFalce for his important leadership on this issue. His vigorous advocacy for a banking system that takes into consideration the credit needs of all Americans, including those that have been traditionally locked out or are less sophisticated, places him in the front ranks of the U.S. Congress.

Let me also express my appreciation to the people willing to stand with Congressman LaFalce and me in support of this important legislation. Each one of them represents a group of people who have suffered at the hands of predatory lenders – minorities, the elderly, low income families, even working and middle class families who have been deceived by unscrupulous operators. They have all been leaders in the effort to address these problems for many years. I am proud to have their support.

I also want to thank Senators Dodd, Kerry, and Schumer, who are original sponsors of this legislation with me in the U.S. Senate.

Homeownership is the American Dream. It is the opportunity for all Americans to put down roots and start creating equity for themselves and their families. Homeownership has been the path to building wealth for generations of Americans; it has been the key to ensuring stable communities, good schools, and safe streets.

The predatory lending industry plays on these hopes and dreams to cheat people of their wealth. These lenders target working and lower income families, the elderly, and, often, uneducated homeowners for their abusive practices. To my mind, nothing can be more cynical.

Let me briefly describe how predatory lenders operate. They target people with a lot of equity in their homes; they underwrite the property without regard to the ability of the borrower to pay the loan back. They make their money by charging extremely high origination fees, and by “packing” other products into the loan, including upfront premiums for credit life insurance, or credit unemployment insurance, and others, for which they get significant commissions but are of no value to the homeowner.

The premiums for these products get financed into the loan, greatly increasing the loan’s total balance amount. As a result, the borrower is likely to find himself in extreme financial distress.

Then, when the trouble hits, the predatory lender will offer to refinance the loan. Unfortunately, another characteristic of these loans is that they have prepayment penalties. So, by the time the refinancing occurs, with all the fees repeated and the

prepayment penalty included, the lender/broker makes a lot of money from the transaction, and the owner has been stripped of his or her equity and, oftentimes, his home.

The problem is, most of these practices, while unethical and clearly abusive, are perfectly legal. Alan Greenspan at the Federal Reserve Board has recognized this as an increasing problem, as have the other banking regulators. Secretary Cuomo has convened a Task Force on this issue.

The legislation we are introducing today with the support of the Leadership Conference on Civil Rights, American Association of Retired People, the National Consumer Law Center, the Self-Help Credit Union of North Carolina, Consumers Union, Consumers Federation, ACORN and others, will help to end these abuses.

I want to make clear that this bill is aimed at predatory practices. There are many people who may have had some credit problems who still need access to affordable credit. They may only be able to get subprime loans, which charge higher interest rates. Clearly, to get the credit they will have to pay somewhat higher rates because of the greater risk they represent. We want them to be able to get these loans.

But these families should not be stripped of their home equity through financing of extremely high fees, credit insurance, or prepayment penalties. They should not be forced into constant refinancings, losing more and more of the wealth they've taken a lifetime to build to a new set of fees each and every time.

This legislation will keep credit available, while discouraging or prohibiting these worst practices. The bill allows lenders to recover the costs of making their loans, while always leaving the door open to borrowers to repair their credit and move to lower cost loans.

Taken as a whole, predatory lending practices represent a frontal assault on homeowners all over America. Today, we are coming to their defense. We must stop the American dream of homeownership from being distorted into a nightmare by these unscrupulous practices. We want to ensure that all borrowers, whether in the prime or subprime market, are treated fairly and responsibly. That is what this legislation is intended to do, and, together with my allies here today, that is what I intend to work towards.