

Mon Apr 18 07:30:08 2005 Pacific Time

Predatory Lending: Inner City Press Releases Analysis of Mortgage Disparities at Washington Mutual, AIG, Ameriquest, RBC, SunTrust, ABN Amro and KeyCorp; HOEPA Loans Are Still Being Made, Banks Break Prior Commitments

NEW YORK, April 18 (AScribe Newswire) -- At banks both large and small, higher-cost loans are disproportionately imposed on people of color, a new study by Inner City Press / Fair Finance Watch of four banks and three of the largest subprime lenders shows. ICP has now reviewed the 2004 Home Mortgage Disclosure Act data of Washington Mutual, AIG / American General, and Ameriquest, and a number of regional banks, including KeyCorp, SunTrust, Royal Bank of Canada / Centura and ABN Amro. ICP has compared each of these, and corrected data that Citigroup has now released, including the new information concerning which loans are subject to a rate spread (3 percent higher than comparable Treasuries on a first lien, and 5 percent on a subordinated lien), and has found the following:

Royal Bank of Canada, which in the U.S. owns Centura bank and an Illinois-based mortgage company, imposes higher-cost rate spread loans nearly four times more frequently on African Americans than on whites. ABN Amro, which owns a mortgage company as well as Standard Federal and LaSalle Bank, imposes higher-cost rate spread loans 4.19 times more frequently on African Americans than on whites, while denying African Americans' applications 3.54 times more frequently than those of whites, and denying Hispanics' applications 1.84 times more frequently than those of whites.

"Both Royal Bank of Canada and Holland's ABN Amro are large disparate mortgage lenders throughout the United States," said Matthew Lee, ICP's executive director. "It is imperative that banks, including those owned from overseas, monitor and reverse their disparities. We're calling for action on this issue, from federal and state regulators."

Among the banks, KeyCorp in 2004 made 972 so-called HOEPA loans, at costs much higher than the new rate spread threshold. In fact, 456 of these loans were at rates more than 10 percent over the Treasury bill rate baseline - that is, home-secured loans at interest rates of 12 percent and up, in a low interest rate environment.

"Despite statements to the contrary, high cost loans are still being made throughout the United States," said ICP's director Matthew Lee. "Reckless banks continue to lend at eight and more percentage points over the prime rate. It is simply not true that laws defining high cost loans have dried up this market. We are now studying the demographics of these high cost HOEPA loans. Oversight is needed."

The large non-bank subprime lender Ameriquest made more than 45,000 loans at rates 5 percent or more over Treasuries, and over 270,000 rate spread loans overall. Washington Mutual made 71 HOEPA loans, and imposed higher-cost rate spread loans 3.26 times more frequently on

African Americans than on whites. AIG FSB, the savings bank owned by the insurance company American International Group, imposed higher-cost rate spread loans 2.27 times more frequently on African Americans than on whites in its home state of Delaware in 2004.

Atlanta-based SunTrust, when cumulated with the Memphis-based bank it acquired in 2004, imposed higher-cost rate spread loans 1.92 times more frequently on African Americans than on whites, while denying African Americans' applications 2.55 times more frequently than those of whites, and denying Hispanics' applications 1.55 times more frequently than those of whites. There are other issues are SunTrust. In response to ICP's comments on its Memphis acquisition, showing that SunTrust was funding dozens of payday lenders and car title lenders, SunTrust sent a letter to the Federal Reserve, copied to ICP, stating that "[a]fter consider the potential reputational risks and consumer harm that could result from lending to such a company, STI is revising its credit policies to prohibit future loans to all businesses that engage in payday or title lending." See, e.g., the July 28, 2004 Memphis Commercial Appeal, "NCF, SunTrust Ditch Payday Lenders - Answer Activists' Challenge Ahead of Bank Merger," and Orlando Sentinel, "SunTrust Halts Loans to Fast-Cash Industry."

In monitoring SunTrust's compliance with this commitment, ICP has come upon evidence of a January 2005 loan from SunTrust secured by "all proceeds" of Cash Advance, Inc. of Jacksonville, Florida. ICP raised this to SunTrust last week, in connection with obtaining the 2004 mortgage data, and SunTrust refused to address the seeming violation of the commitment it made, citing its "confidentiality obligations" but stating that this was a "banking relationship that pre-dated our representations to the Fed last July." But the loan to Cash Advance was filed as an "initial" Uniform Commercial Code lien on January 25, 2005, more than six months after SunTrust's commitment to cease such lending. Another defense being offered is that while the loan is secured by all proceeds of Cash Advance, Inc., it is somehow not a business loan. ICP has now raised this SunTrust issue to federal and state regulators (in Georgia and Tennessee) for their action; ICP is committed to independent verification and monitoring of commitments.

In further monitoring, ICP has raised to the federal Office of the Comptroller of the Currency the fact that the mortgage lending data filed by HSBC for its ex-Household units HFC, Beneficial and Decision One, all point to the OCC as the regulator of these companies. Each has been state-regulated; HFC and Beneficial are subject to a \$486 million predatory lending settlement with attorneys general and regulators in 46 states. When HSBC applied to convert its New York State-charter bank to a national charter with the OCC in mid-2004, ICP submitted timely comment opposing any shift of HFC and Beneficial from regulation by the states, at which level HFC and Beneficial are still subject to the predatory lending settlement. The OCC's June 23, 2004 ruling, still on the agency's web site as Community Reinvestment Act Decision #122, at www.occ.treas.gov/interp/jul04/crad122.doc, noted ICP's concern that

"HSBC's intermediate parent company, will try to move its subprime operations from Household International, Inc. (HII), to HUNA in order to preempt the application of state consumer protection laws. Many of the concerns raised by the commenter related to HII and its non-bank subsidiaries... The applicant has represented that HII's branch-based consumer lending business, conducted through Household Finance Company (HFC) and Beneficial Corporation, will continue to be operated as a state-regulated business."

See also, Buffalo News of June 13, 2004, "HSBC Hit on Downstate Lending Patterns," reporting that ICP "says the move could let Household avoid state scrutiny if it became a subsidiary of the new national bank. A national investigation by multiple state attorneys general led to a settlement in September 2002 with all 50 states. Household agreed to pay \$484 million in

refunds to customers and to make dramatic changes in its practices. HSBC officials insist that the bank and Household are separate and there are no plans to reorganize Household under HSBC Bank USA. They say the lending offices and practices of subsidiaries Household Finance and Beneficial Finance will remain under state purview." But that is not what is reflected in the 2004 HMDA data filed by HSBC - there, the ex-Household units are portrayed as regulated by the OCC. ICP notes, however, that neither company is named or disclosed in the OCC's online listing of national bank operating subsidiaries, at www.occ.treas.gov/OpSublist.pdf. This issue of stealth preemption on state consumer protection laws, implicating both HSBC and the OCC, is being raised to Congress and state officials.

Some lenders continue to throw up obstructions to access to their mortgage and rate spread rate. Lehman Brothers, which like AIG owns a savings bank in Delaware as well as two large subprime lenders, is attempting to require ICP to sign a confidentiality / privacy agreement. This mirrors a demand ICP has received from New Century Mortgage Corporation, which beyond cynically proposing that ICP go to Irvine, California to view its data, demanded the signing of a three-page "Confidentiality and Privacy Agreement" which would prohibit the "Requesting Party" from sharing the mortgage data or any "summaries of, excerpts from, or data elements contained in, the Requested Data" with any third parties, presumably including regulators, journalists and even courts.

This would prohibit the preparation and dissemination of just the sort of studies that Fed chairman Greenspan and other regulators have been giving speeches about, and ICP has been releasing. ICP has written to New Century and Lehman Brothers, and to the Office of Thrift Supervision and other regulators, reminding them that under the Home Mortgage Disclosure Act this data must be released, without conditions. There are other obfuscations: Fifth Third Bank has provided its data in PDF format, which can be viewed (as printed pages) but not analyzed; Countrywide is claimed to not be able to provide the data in the format it was submitted to the regulators, despite ICP working for a week providing Countrywide with information about free software and formatting options. Nor has U.S. Bancorp provided its data in the format ICP requested -- since US Bank NA, North Dakota in May 2004 settled litigation related to its purchase of HOEPA loans, its data in analyzable format is of particular interest, as ICP has now informed the regulators.

In a new low, Citigroup on April 13 informed ICP that the data Citigroup had given it on March 31 was incomplete and incorrect. Based on that data, provided by Citigroup the full month after ICP's request, ICP conducted an analysis and found for example that for home purchase loans at Citigroup in 2004, African Americans were 4.34 times more likely to receive higher-cost rate spread loans than whites. Citigroup's spokesman, asked to respond by the Associated Press and the American Banker newspaper, called ICP's findings, and its director, "reckless," and claimed that the data showed otherwise. See, e.g., American Banker newspaper of April 18, reporting that "Citigroup Inc. had some statistical egg on its face after accusing Inner City Press/Fair Finance Watch on April 4 of a 'reckless' analysis of its Home Mortgage Disclosure Act data... A Citi spokesman had said the analysis by Matthew Lee of Inner City Press focused on such a small number of loans that it was not representative of the company's overall lending. An analysis by Mr. Lee using Citi's updated data shows less racial disparity in the lending than previously reported. African-Americans are 3.88 times as likely to receive a subprime loan as whites, rather than 4.34 times."

The data Citigroup provided on March 31 underreported its 2004 higher-cost loans by 82,103 rate spread loans. Based on the new data, fully 26.46 percent of Citigroup's originated loans in 2004 were higher-cost rate spread loans.

This is still lower than at HSBC, where 32.7 percent of 2004 loans were higher-cost rate spread loans - but it is much lower than at Wells Fargo, where 9.13 percent of 2004 loans were higher-cost rate spread loans, and even National City, where 14.1 percent of 2004 loans were rate spread. National City last week acknowledged a federal investigation of certain of its high cost loans. For home purchase loans, Wells Fargo denied the applications of African Americans 2.28 times more frequently than those of whites, and those of Latinos 2.02 times more frequently than whites. At Citigroup, the disparity for African Americans is higher (a denial rate for African Americans 2.54 times higher than for whites), while for Latinos it is slightly lower (a denial rate for Latinos 1.93 times more frequently than whites). These comparisons are for the holding companies as a whole, cumulating all of their HMDA-reporting affiliates.

Based on the new data, for home purchase loans at Citigroup in 2004, African Americans were 3.88 times more likely to receive higher-cost rate spread loans than whites. While this is slightly lower than the disparity, 4.34 to one, in ICP's first study based on the data Citigroup provided, it is still much higher than for example the lenders reviewed above. Strangely, the Wall Street Journal's April 11 report, based on Citigroup's self-generated percentages, had Citigroup appearing less disparate than nearly all other lenders. (HSBC was not included in the Wall Street Journal's report, despite making more rate spread loans in 2004 than either Citigroup or Wells Fargo).

While ICP's analysis of Citigroup's second, ostensibly correct batch of data is continuing, ICP stands by its finding, that the disparities by race in high-cost lending at Citigroup are worse than at its peers.

ICP's executive director Matthew Lee concluded, "Citigroup had more than a month to prepare, but released data that undercounted its high cost loans by a power of seven. The new data makes Citigroup look even worse and more disparate, and makes it all the more important that the Federal Reserve stick to and firm up its March 2004 ruling that Citigroup should not significantly expand until it fixes its compliance woes. Citigroup's problems include systemic racial disparities and predatory lending."

Methodology and Scope of Review

As stated above, both for its April 4 report and for this report, ICP Fair Finance Watch reviewed Citigroup's 1,218,401 loan mortgage loan applications records for 2004. For the other banks in this report, ICP reviewed Washington Mutual's 1.3 million mortgage records, including 71 HOEPA loans. KeyCorp reported merely 184,955 mortgage records in 2004, including 972 HOEPA loans. RBC Centura and RBC Mortgage together reported 92,766 mortgage records. SunTrust Bank, together with its mortgage company and NCF, reported 293,302 records (only 27,208 of these were from NBC). ABN Amro, cumulating its mortgage company, Standard Federal and LaSalle Bank, reported 411,341 mortgage records in 2004.

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AOBUT ICP: Inner City Press / Fair Finance Watch [ICP] works to increase accountability by financial institutions, on matters of fair lending and community reinvestment, and human rights more broadly. ICP's challenges to bank merger proposals since 1994 have resulted in several multi-billion dollar lending commitments, precedents and commitments to fair lending protections. ICP's consumer protection work includes the 2004 book, "Predatory Bender: Toxic Credit in the Global Inner City." The book is available on Amazon, InnerCityPress.org/books.html and elsewhere, on - and off-line, ISBN 0-9740244-1-4, 456 pages. "In an interview with CBS

Marketwatch, Rev. Jesse Jackson, who has battled bank mergers with [ICP] for more than a decade, said [Predatory Bender's and this study's author] is a key figure in the current stage of the civil rights fight, the access to capital. ... Jackson said, 'He is an enemy of predatory exploitation' [CBS-MW April 23, 2004]." ICP's next book, addressing the links between the banking industry and a range of predatory businesses, including payday lending and other fringe finance, is forthcoming. Selected passages are online at www.RightsForce.org . The ICP Fair Finance Watch is on the case, for now analyzing the 2004 data as it comes in. See, www.innercitypress.org/2004hmda3.html

For further information, contact Matthew Lee, Executive Director, Inner City Press / Fair Finance Watch, 718-716-3540, lee@fairfinancewatch.org

Media Contact: Matthew Lee, 718-716-3540, lee@fairfinancewatch.org



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