



# Borrower-Lender Dynamics in Predatory Lending Transactions in St. Clair County, Illinois: A Thematic Analysis

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August 10, 2004

Submitted in partial fulfillment of the requirements  
for the degree of Master of Urban Planning  
in the Graduate College of the  
University of Illinois at Urbana-Champaign, 2004  
Urbana, Illinois

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**ABSTRACT**

In St. Clair County, Illinois, concern about predatory lending tactics has grown as foreclosures in the subprime market have increased. Earlier analysis of the public record on mortgage lending uncovered the relationship between abusive loan terms and race as well as targeting of potential borrowers based on race, income and age. However, many of the nuances of the mortgage transaction, including the procedural details of its origination and complaints for foreclosure and the behavioral aspects of the borrowers and lenders, are not a matter of public record. This study investigated the personal stories of some residents in St. Clair County who had their homes foreclosed on as a result of what appeared to be predatory lending tactics. Eight individuals targeted by predatory tactics and four service providers were engaged in this study. Discrete, semi-structured interviews were administered to the two groups of participants, and when available, individual mortgage papers were examined. Interviews were transcribed and a conceptual content analysis employed in order to detect themes and patterns in the circumstances of mortgage foreclosure. Personal stories are illustrated, and the predatory tactics employed in the County are explained in terms of borrower characteristics and borrower-lender dynamics. The most common procedural characteristics were the use of intermediaries, including mortgage brokers, home improvement contractors, and real estate agents, to secure the loan; the lender's failure to emphasize or explain the loan's terms; the lack of attorney consultation by the borrower; high interest rates and excessive fees; and targeting low-income, single, female heads of household. The report concludes with suggestions for curbing predatory practices and for educating consumers.

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*To the people of St. Clair County, Illinois and any other person that has been unduly targeted by predatory tactics*

## **ACKNOWLEDGEMENTS**

The author would like to thank many people for their advice and support throughout the completion of this project. Many thanks to my advisers, Varkki George Pallathucheril and Lynne Marie Dearborn, who offered guidance and encouragement throughout the duration of this project. Thanks to the East St. Louis Action Research Project and the Neighborhood Technical Assistance Center for offering help in completing this study, especially Vicki Eddings, Donovan Finn, and Justin Placek. Also thanks to the University of Illinois Department of Urban and Regional Planning for providing me with the knowledge and resources to make this project happen. Thanks to my friends for supporting me over the course of the last two years, especially Marisa Zapata, Yelias Bender, Tim Green, John Sanders, Wil Myers, and Natalie Downs. And finally, thanks to my parents who offered their constant encouragement and enthusiasm to me as I pulled this project together.

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**LIST OF ABBREVIATIONS**

CRA	COMMUNITY REINVESTMENT ACT
ESLARP	EAST ST. LOUIS ACTION RESEARCH PROJECT
FHA & EOA	FAIR HOUSING ACT & EQUAL OPPORTUNITY ACT
HOEPA	HOME OWNERSHIP AND EQUITY PROTECTION ACT
HMDA	HOME MORTGAGE DISCLOSURE ACT
HUD	U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
LOLLAF	LAND OF LINCOLN LEGAL ASSISTANCE FOUNDATION
NTAC	NEIGHBORHOOD TECHNICAL ASSISTANCE CENTER
RESPA	REAL ESTATE SETTLEMENT PROCEDURES ACT
TILA	TRUTH IN LENDING ACT
TPO	THIRD PARTY ORIGINATOR

# **Borrower-Lender Dynamics in Predatory Lending Transactions in St. Clair County, Illinois: A Thematic Analysis**

## **BACKGROUND**

Many older neighborhoods in American cities are experiencing disinvestment while the outskirts of these cities grow and prosper. These areas face a multitude of problems, including declining quality in institutions, services, and infrastructure. As this public and private disinvestment has amassed into a fiscal and social crisis, many of these areas have also become targets as predatory lenders strip equity away from unsuspecting homeowners. Predatory lending happens when mortgage brokers, mortgage companies, or even traditional banks employ abusive financial practices against individuals in the home-buying process. Often under the guise of subprime lending, which purports to provide means for community reinvestment through higher interest loans that would otherwise be unavailable to risky mortgagees, predatory lenders have devised an array of successful schemes to systematically siphon resources away from unassuming, economically vulnerable individuals lured by the prospect of owning a home and securing their future. Predatory methods not only extract heavy interest payments, and excessive fees and penalties but they often lead to mortgage foreclosure and the loss of any equity in the home when the mortgagees cannot meet this burden.

In St. Clair County, Illinois, concern about predatory lending tactics has grown as foreclosures in the subprime market have increased (Fitzgerald, 2001). County officials commissioned a quantitative study, over a five-year period from 1996 to 2000, to document geographic and demographic aspects trends in foreclosures and related loan terms. Public records were retrieved from the Circuit Clerk, the County Assessor and the Recorder of Deeds and compiled with online data from the Census and Federal Reserve in order to construct a database that could represent the local state-of-the-market concerning foreclosures, loan terms, property assessments, and sales prices. This database was evaluated against predatory lending warning signs drawn from recent literature.

*Mortgage Foreclosures and Predatory Lending in St. Clair County, Illinois 1996-2000* notes that there has been a recent upsurge in foreclosures in St. Clair County and that suspected

predatory tactics are unduly targeted at African Americans (Dearborn, 2003). Statistical and spatial analyses revealed patterns and trends in the data suggesting the possibility of predatory lending in St. Clair County, especially in the “bottoms” section of the County where there are greater concentrations of African Americans; however, the subtleties between predatory and subprime lending made it difficult to discriminate between the two practices on paper. Causality and predatory intent were elusive at this level of analysis. Many of the nuances of the mortgage transaction, including the procedural details of its origination and complaints for foreclosure and the behavioral aspects of the borrowers and lenders, are not a matter of public record. Quantitative analysis uncovered the relationship between abusive loan terms and race as well as potential borrower targeting based on race, income and age.

Despite these accomplishments, the study did not uncover specifics of lender and borrower dynamics and behaviors as the mortgage and foreclosure processes unfolded. Literature time and again suggests the difficulty in distinguishing subprime and predatory loans, making information about the borrower and lender necessary for an accurate appraisal of the transaction. In an attempt to enrich the previous study, a qualitative approach was adopted. Personal interviews were designed to collect anecdotal evidence from residents who had been threatened with foreclosure and from service providers who were counseling these residents. By documenting individual experiences, this study augments existing quantitative information on targeting and loan-term trends by revealing the patterns in the unethical lender behavior and highlighting the common characteristics of residents. By allowing residents to tell their own stories and service providers to lay out the context of specific behaviors, the qualitative component brings out a fuller description that the statistics cannot tell alone. Because this study will bring out testimonials, eventually educational programs can be constructed to address more strictly the tricks of the trade among predatory lenders and to provide general information about the mortgage process.

Carr and Kolluri (2001) have organized the tactics and outcomes from existing literature into three modes in order to frame the identifying characteristics of predatory lending. First, lenders draw on fraudulent target marketing to identify individuals based on traits unrelated to their credit, such as income, education level, race, gender, or geographic location, that make them vulnerable to manipulative sales tactics. Because these individuals are more likely to be unfamiliar with finance and alternative credit options, they are specifically targeted and exploited by way of

predatory lending. Second, abusive terms are incorporated into loans allowing lenders to reap as much economic gain as possible. The terms often ignore borrower risk or actively pursue a loan default, which would strip away the borrower's equity. These terms are set with disregard for the borrower's ability to repay and seek to secure as much profit to the lender from high interest rates and fees before finally repossessing the home through foreclosure. Lastly, lenders may make use of fraudulent behavior in order to obfuscate or omit information about the mortgage that would otherwise be critical in the borrower's decision-making process. In addition, lenders often use aggressive sales tactics to pressure an agreement and discourage exploring alternative credit options.

This study looks more closely at these three aspects of predatory lending but also broadens the scope to include the behaviors and attitudes of borrowers. While these borrower-lender behaviors are valuable to understand in isolation, the interpersonal dynamics will also be explored. This report seeks to answer the following questions:

- Were the mortgage transactions that led to foreclosure predatory in nature or the result of borrower delinquency on legitimate subprime loans? Was the predation based in borrower targeting, loan terms, or lender-borrower behaviors?
- What lender-side behavior and/or terms signal predatory lending? Were there similarities or differences between the cases?
- What borrower-side behavior and/or characteristics were targeted for predatory transactions? Were there similarities or differences between the cases?

Since past research has not systematically analyzed the personal experiences of those targeted by predatory lending, this study attempts to illustrate common devices that predatory lenders use and the targets that they seek. This report will begin by defining and differentiating the literature regarding subprime and predatory lending. Next, the design and methodology of this study will be outlined and explained. Personal testimonials were obtained from one-on-one interviews with eight St. Clair County residents who have received judgments for foreclosure. These interviews will illustrate specific borrower-lender dynamics. Additionally, four interviews with professionals who work in the home buying and social service sector in St. Clair County were incorporated into the analysis in order to provide context for the experiences presented by borrowers.

By tracking commonalities and anomalies within cases, it is anticipated that lender motivations and targeted consumers will be realized and understood. Individual vignettes will be presented in order to provide the specific stories of the interview participants, followed by an overview of the trends uncovered by the interviews. This report ends with a discussion of the lessons learned about the qualitative process and about the experiences of individuals in St. Clair County. Suggestions for remediation are explored.

## **SUBPRIME LENDING**

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Subprime lending is exceptional financing that is granted to borrowers who do not meet the underwriting qualifications applied by conventional, or prime, loans. Litan (2000) reports that the 1990s augmented the emerging market of subprime lending, which has resulted in a proliferation of loans to low- and moderate- income and minority borrowers. The creation of credit scores enabled lenders to more accurately assess the risk of default and the appropriate risk trade-off offered through higher interest rates or other term modifications. Subprime loans are chiefly offered through non-depository financing companies that are not regulated by the federal or state government. However, depository institutions have begun to take on subprime loans in order to reap the benefits set forth in the Community Reinvestment Act. Moreover, government driven ventures such as Fannie Mae and Freddie Mac have shown signs of growth as they begin to invest in loans just below prime guidelines, also know as A- loans.

Subprime borrowers typically lack one of the three C's: credit, capacity, or collateral (Allied American Mortgage of Brooklyn Center, 1996). Credit indicates the historical track record for debt service; capacity demonstrates the borrower's current ability to repay debt based on income; and collateral refers to loan security through promised assets (often times the mortgaged home), which can be liquidated in the event that the loan defaults. When applied fairly and properly, the subprime mortgage market has made credit available to potential borrowers who could not otherwise procure loans, and these benefits have produced marked increases in borrowing in Hispanic and African American communities (Litan, 2000). While predatory loans are typically subprime, it should be emphasized that subprime lending is not necessarily predatory.

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**PREDATORY LENDING**

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Subprime lending can provide lasting benefits to communities where borrowers have blemished or thin credit. However, predatory lending is distinct from the subprime market because it tends to offer unfair terms that exploit the borrower's lack of knowledge or conducts transactions with deception, fraud, or hard line sales approaches. Terms often exaggerate risk-reducing measures such as higher interest rates and origination fees to levels well above the associated borrower's probability for default. Common industry practice extends loans between one-half and four percentage points above prime to higher risk borrowers, although points may be higher to cover higher risk.

Predatory lending is enabled by two deficiencies in the mortgage system: a lack of competition and a lack of information. Many traditional banks refuse to consider loans in high-risk neighborhoods or to high-risk borrowers. Concomitantly, many borrowers do not know their credit history or the typical mortgage process well enough to demand better terms for their loans. Most often these tactics are targeted at low- or moderate- income people who either believe or *perceive* their credit record to be marginal or poor. Frequently, these residents tend to be female, minority, older and/or single parents. In the poorest areas, geographic segregation both isolates borrowers from mainstream lending and perpetuates myths provincially by word of mouth about the lack of potential credit possibilities.

The U.S. Department of Housing and Urban Development (HUD) and the U.S. Department of the Treasury (2000) have identified four practice categories that are attributed to predatory lending (p. 2):

- *Loan flipping*: the practice of refinancing loans repetitively after only a short period of time has elapsed, charging fees and sometimes prepayment penalties with each consecutive refinance and stripping and borrower of any established equity.
- *Excessive fees and "packing"*: fees surpass the risk associated with the loan, and often times, extra fees are "packed" into the loan without the borrower's knowledge.
- *Lending without regard for the borrower's ability to repay*: loans are extended based on assets (collateral) instead of income (capacity). These practices have been most evident with older persons on fixed incomes with monthly payments in excess of total monthly income.

- *Outright fraud and abuse*: out-and-out deceptions that obscure or misrepresent the nature or terms of the loan and/or employ hard sell sales tactics.

Despite attempts at regulating the subprime market, predatory lending remains difficult to identify. The HUD/Treasury Report (2000) notes that predatory lending is a difficult practice to pinpoint categorically. It states that, "Any list of predatory practices is destined to be incomplete because bad actors are constantly developing new abusive practices, sometimes to evade new government regulation. Furthermore, a list does not consider the context in which the alleged abuse has occurred. Some practices may be considered abusive in the context of high-cost subprime loans; other practices may be deemed unacceptable in all contexts; and others – while not necessarily abusive for all high cost borrowers – are abusive in the borrower's situation or because the borrower was misled or deceived" (p. 17).

## **THE FEDERAL RESPONSE**

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Federal laws are already in place to better regulate the mortgage industry and to protect potential mortgagees from iniquitous tactics. Some professionals accentuate the adequacy of federal statutes that already mark predatory practices as illegal and argue against enacting more localized measures at the state and local level because they "run a significant risk of unintentionally cutting off the flow of funds to creditworthy borrowers" (Litan, 2000, p. 2). Instead, the government is called to focus on increasing the competence of the Federal Reserve in protecting borrower rights and in educating potential consumers.

These laws are meant to supply borrowers with meaningful disclosures regarding their loan's terms and to release information to the regulatory agencies that monitor their loan activities. Despite the law's pretense, many borrowers are unaware of their rights and of the protection that these disclosures impart. Nevertheless, these disclosures are mandated, and when followed, they provide a transparent transaction between the lender and the borrower. In the context of a predatory transaction, they are often violated and shift power to the lender. If many of these disclosures were well constructed and accompanied by clear explanations, the power differential between lenders and borrowers would be minimized. The following sections will briefly detail the history of federal legislation in barring discriminatory practices and in mandating disclosure and reporting standards.

***Fair Housing Act of 1968 and Equal Opportunity Act of 1974 (FHA & EOA)***

The Fair Housing Act made illegal discrimination in the sale, rental, and financing of homes based on race, color, national origin, religion, sex, familial status and disability. The Equal Opportunity Act prohibits discrimination in credit assessments. In tandem, these two laws opened credit to potential borrowers in low income and minority neighborhoods by undermining redlining, block busting and credit blocking tactics utilized by lenders. Moreover, steering individuals based on race/ethnicity, income, or education to the subprime market based on demographics rather than credit can also be in violation of the FHA/EOA, though it is not predatory lending.

***Truth in Lending Act of 1968 (TILA)***

Congress enacted the Truth in Lending Act in 1968 and modified it under the Depository Institutions Deregulations and Monetary Control Act of 1980 in order to force lenders to disclose loan terms and costs. Under Regulation Z, disclosure must be made for conditions including finance charges, annual percentage rate, loan amount, periodic payment amount, and the total sales price. Additionally, the law permits borrowers the right to rescind particular credit transactions within a short period of time, typically three days after closing. By disclosing credit costs, consumers can make more informed decisions about the transactions that they enter.

***Real Estate Settlement Procedures Act of 1974 (RESPA)***

The Real Estate Settlement Procedures Act functions as an addendum to TILA by requiring additional disclosures by lenders of federally regulated mortgage loans. Disclosures include the following: (a) a Special Information Booklet for consumer education on settlement services, (b.) a Good Faith Estimate (GFE) that itemizes probable settlement charges, (c.) HUD-1 Uniform Settlement Statement that itemizes the final settlement costs, and (d.) a Mortgage Servicing Disclosure Statement that indicates whether the lender intends to service or sell the loan and informs the borrower about grievance procedures. RESPA also prohibits kickbacks and referral fees for settlement service providers and limits the amounts that can be held in borrower escrow accounts. There is no explicit penalty for failure to comply with RESPA; however, regulators can apply consequences for noncompliance with federal law.

***Home Mortgage Disclosure Act of 1975 (HMDA)***

The Home Mortgage Disclosure Act requires certain financial institutions, including banks, savings associations, credit unions, and other mortgage lending institutions to report data to

supervisory agencies and the public about originations, purchases and applications for home purchase loans, home improvement loans, and refinancings. Data reported contains information on loan type, the property, and demographic information of the borrower. This regulation aids in establishing whether financial institutions are providing for the housing needs of their communities and whether discriminatory practices are being employed in lending.

### ***Home Ownership and Equity Protection Act of 1994 (HOEPA)***

The Home Ownership and Equity Protection Act improves the Truth in Lending Act, Section 32 in Regulation Z, by further regulating loans with high interest rates and/or high fees. For this reason, HOEPA mortgages are commonly referred to as Section 32 Mortgages. HOEPA explicitly defines the criteria for being a high cost loan and enumerates additional disclosures that must be made because of the potential for abuse. In addition to these disclosures the Act entirely prohibits terms such as balloon payments, negative amortization, most pre-payment penalties and due-on-demand clauses (Federal Trade Commission, 2004). For a full listing of these banned practices, see Appendix A.

### ***Community Reinvestment Act of 1977, revised 1995 (CRA)***

The Community Reinvestment Act encourages depository institutions to provide loans to low- and moderate-income borrowers by considering their credit record when making an allowance for the institution's request for deposit facilities. Institutions who have more broadly served the needs of its community are looked upon more favorably. However, there are no explicit criteria that have been outlined in order to reliably evaluate each institution in comparison to others. Regulators determine criteria on a case-by-case basis.

## **THE BEHAVIORAL CONTEXT OF PREDATORY LENDING**

There is little doubt that predatory lenders target low-income and minority individuals without respect for their credit evaluations. Exploratory reports have suggested that subprime and predatory lending tactics have nefarious concentrations in low-income and minority communities (ACORN, 2001b; HUD/Treasury, 2000; HUD, 2000). According to HUD/Treasury (2001), subprime lenders now comprise half, 51 percent, of all refinance loans made in principally African American neighborhoods, compared to principally white neighborhoods that retain only 9 percent of the refinance loans. The ACORN (2001a) report cautions that the predatory lending problem should

not be misconstrued as a problem that disproportionately impinges on minorities, though they experience more geographic and demographic concentration, because “the vast majority of borrowers in subprime loans – and thus the vast majority of predatory lending victims – are white” (p. 6).

At any rate, it should be reemphasized that subprime lending does not necessarily imply predatory lending, but a concentration of subprime loans does increase the probability of exposure to predatory practices. Subprime mortgages are indeed riskier and are justified in charging interest rates that cover the risk involved in taking the loan. However, it seems to be more beneficial to understand this statistic in relation to each individual borrower’s actual credit risk instead of evaluating it based on an aggregate trend. In that vein, Carr and Schuetz (2001) have estimated that as many as half of all borrowers in subprime loans could have instead qualified for a lower cost mortgage, which could save a borrower more than \$200,000 over the life of a thirty year loan.

Targeting, in order to be deemed “predatory,” is often found in tandem with abusive loan terms and fraudulent lender behavior. It has been shown that minorities tend to pay larger overages in all purchase loans than Whites (Black, Boehm, & DeGennaro, 2003). Overages, or yield spreads, are the amounts charged over what is the lowest suitable rate set by the lender. It has been suggested that this difference in overages is not a function of race, but of characteristics built-into the pool of borrowers, such as the bargaining power of the borrowers and the market power of the loan officers. The significance of the borrower’s behavior expands the existing definition of predatory lending by Carr and Kolluri (2001) by insinuating that it is not just lender behavior alone, but the borrower-lender dynamics that influence the outcomes on loan terms. Borrowers, who lack information, refuse to bargain or do not shop around, are less successful in negotiating good deals, and therefore, are more susceptible to predatory tactics.

## **METHOD**

Despite the importance of borrower-lender interactions, no previous study has attempted to systematically analyze the behaviors of lenders and borrowers. A few studies have incorporated vignettes into their reports in order to illustrate specific predatory practices, to provide a descriptive context to financial jargon, or to grab the attention of the reader by appealing to the pathos of the situation (ACORN, 2001b, p.1, 33-40; ACORN, 2002, p.1, 38-46; Goldstein, 1999, p. 11-15;

HUD/Treasury, 2001, p. 17-21). Newspaper articles and television specials have the added benefit of being more accessible to the potential targets of predatory lending and almost always will follow a specific case in order to demonstrate the causes and effects of predatory transactions (ACORN, 2001a; Davies, 2001; Fitzgerald, 2001). This qualitative study collects testimonials from targets of predatory lending and performs a content analysis on their responses in order to construct a local understanding of the borrower and lender behaviors in mortgage transactions in St. Clair County, Illinois. After a clearer picture emerges from the data analysis, borrower education programs can be constructed to fit residents' needs.

## **PARTICIPANTS**

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Participants in this study were drawn from the following two discrete groups: (a.) individuals who were the targets of predatory lending practices and (b.) social service providers who counsel individuals who are confronted with home foreclosure. No other restrictions were placed on potential participants. All participation was voluntary with no compensation for involvement in the study.

From the predatory lending target group, eight individuals partook in a face-to-face, semi-structured interview. All respondents were females with low gross incomes, earning in the range of approximately \$6,624.00 to \$27,600.00 with an average of \$17,349.00 ( $SD = \$7,918.00$ ). At the time of their loan, gross incomes ranged from approximately \$6,240.00 to \$36,000.00 with an average of \$20,620.00 ( $SD = 9,992.00$ ). All targets were below the median household income of \$39,148.00 and the median family income of \$47,409.00 for St. Clair County according to Census 2000. Participants ranged in age from 34 to 73 years of age, with an average age of 51 years ( $SD = 12$ ). Seven of the women were African American, and one was Caucasian. All of the participants were heads of household, with six operating as single mothers. One additional case was cursorily added to the analysis. The resident declined to participate but was signaled as a potential candidate by a family member.

From the service provider group, four individuals participated in a semi-structured phone interview. All participants have been employed in service provision or housing counseling in St. Clair County for an average of 7 years ( $SD = 1.63$ ).

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**DESIGN**

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The design of the study was a survey. Borrowers were recruited through one of the following methods: (a.) snowball sampling through referrals from St. Clair County Intergovernmental Grants Department, (b.) snowball sampling through referrals from a local non-profit home counseling agency, (c.) accidental sampling motivated by self-inclusion resulting from fliers handed out at residences or posted at churches and convenience stores in the Alta Sita neighborhood of East St. Louis during an East St. Louis Action Research Project (ESLARP) Outreach Weekend, or (d.) accidental sampling motivated by self-inclusion resulting from contact with or information posted at the Neighborhood Technical Assistance Center (NTAC) in East St. Louis, Illinois. Telephone interviews with service providers sought key informants in St. Clair County as suggested by the St. Clair County Intergovernmental Grants Department. From these service provider interviews, the snowball sampling strategy was employed to identify individuals who were potentially targeted by predatory lenders.

Both the solicitation of service providers and the recruitment of borrowers were forms of non-probability, convenience sampling and should not be mistaken for random, representative sampling and used as a source for statistical analysis. However, efforts were made to obtain a representative sample of targets of predatory lending, including single-female-headed-households, single-male-headed-households and joint-partner-headed-households, though this endeavor was not materialized in the participant pool.

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**MATERIALS**

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This study employed two semi-structured interviews. An in-person interview was administered to eight individuals who were targets of predatory lending tactics. See Appendix B. The interview was borrowed from the Community Reinvestment Association of North Carolina's Community Guide to Predatory Lending Research (Bradley, 2000). The seven-page survey, consisting of fifty-one questions broken into ten sections, was administered verbally to all participants. Questions were typically coupled in a closed-ended and open-ended sequence. For example, Question 10 asks, "If you sought the loan from a traditional bank, were you denied?" This question is followed up by the more illustrative question, "What was the reason given for the denial?" The structure of the survey was identical for all participants, but interviewers encouraged

detailed descriptions of interviewees' experiences by probing for detailed answers about their encounters. When available, mortgage papers were reviewed to determine whether or not all appropriate documentation was included in the mortgage closing papers and that all transactions were documented as the mortgagee understood them, including the Good Faith Estimate, HUD-1 Settlement Form, Federal Truth in Lending Form, Notice of Right to Rescind, and double checks on the presence of an adjustable interest rate, balloon payment, credit insurance, prepayment penalties, or mandatory arbitration clause.

A telephone interview was administered to four service providers who counsel individuals confronted with home foreclosure in St. Clair County. See Appendix C. The interview was constructed in order to elicit service provider experiences with mortgage foreclosure and predatory lending. The two-page survey consisted of twenty questions.

## **PROCEDURE**

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All target borrower participants were administered the same seven-page verbal, in-person survey, and all service provider participants were administered the same two-page survey over the telephone. Four interviewers conducted research in this study. One principal interviewer was present at all eight in-person interviews to verbally dispense the survey and to go through the participant's documentation. The two other interviewers were present at three of eight in-person interviews, and when present, these interviewers took stock of the participant's mortgage files to determine if there were any missing or conflicting documents. Another principal interviewer conducted all four telephone interviews.

Though both surveys were completed fully, and in order, participants were encouraged to stop and expound upon any detail, related or unrelated to the question, whenever necessary. The in-person borrower survey took approximately 80 minutes to complete ( $R = 45 - 90$  minutes). Individual interviews took place in the interviewee's home in seven cases and at a local public library in one case for the interviewee's convenience. The telephone survey took approximately 30 minutes to complete and was arranged around interviewee's schedule.

Interviews began with an introduction of the interviewers and the project. Within the information session, participants were told that the study focused on the topics of mortgage foreclosure and predatory lending. If any clarification was solicited, questions were answered.

Before beginning the borrower survey, a written informed consent was obtained from each participant. The informed consent was verbally explained as well as handed out in written form, and each participant was asked to sign the form if they agreed to the statements. They were assured that any information obtained therein would be used for research purposes only and would be kept confidential. Participants were also advised that their involvement was voluntary, and they may forgo answering any questions or withdraw from the study at any time without penalty or prejudice. Additionally, the form asked for participants to consent to audio record the interview and for permission to use responses in publications and presentations. Seven of eight interviewees consented to have their interviews audio recorded. After consent was given, the interviewer began the in-person interviews first by allowing the interviewee to give a brief overview of her situation. After the summary, the formal interview process began.

In the case of service providers, participants were notified that their responses would remain confidential and that their names would not be used in any reporting of the findings of the study. Their consent was verbal and did not require a signature.

Two people completed the task of in-person interview transcription. The main interviewer transcribed four of eight of the in-person interviews from audiocassette tapes. The interview that was not audio recorded and one interview that was inaudible due to indoor acoustic interference were loosely transcribed from notes taken by the main interviewer. A secondary transcriptionist typed out the remaining two borrower audio recordings. All four telephone interviews with service providers were loosely transcribed from notes taken by the interviewer.

## **CONTENT ANALYSIS<sup>1</sup>**

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This study utilizes content analysis on the field notes and transcriptions taken from one-on-one interviews. This is a meaning-based approach that uses the text as its data. This textual content can be words, phrases, sentences, paragraphs, or concepts. Through this methodology, analysis is initiated as soon as the interview begins. After each interview, field notes and audiocassettes are transcribed. At this time, the interviewee's circumstances are contemplated and must be phenomenologically understood. Phenomenology refers to the method of investigation where the perceptions and experiences of individuals are given prominence over "the facts." As

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<sup>1</sup> The content analysis section is based on information from Miles & Huberman (1994) and O'Connor (2004)

content is reviewed, contents are organized into themes related to the research purpose. Themes are areas of meaning that can be extrapolated from specific, individual comments into more general areas of significance that hold symbolic force for the interviewee. Themes are not consciously constructed by individuals and require interpretation by the researcher. Nevertheless, themes tend to act like mental diagrams that shape and accommodate our perceptions of life experiences.

After themes are identified, a coding scheme is devised to organize the frequency, intensity, and duration of themes and concepts. The coding system arranges themes around manifest and latent meanings. Manifest meaning refers to the explicit ideas and concepts that are discussed throughout the interview. Latent meaning, on the other hand, requires interpretation to go a step further by determining what underlying issues are stimulating the dialogue and why they are important to the interviewee. Though the motives behind particular comments cannot be established, the comments themselves can be quantitatively assessed for manifest meaning and then qualitatively deciphered for latent meanings. Each interviewee provides her own distinct experiences, but in combination, a cohesive story emerges about predatory lending in St. Clair County.

## **BORROWER VIGNETTES<sup>2</sup>**

Borrower vignettes are provided in this section in order to set up the framework from which the global themes provided in the next section have been interpreted. These borrower profiles have been constructed solely from the information gathered in the interview and attempt to stay restricted to manifest texts, which were explicitly stated by the interviewees. Interviewer interpretation has been consciously suppressed as much as possible. After each sketch, the key indications of predatory tactics are outlined.

### ***Sheila***

Sheila is a senior citizen with failing health who decided to refinance her home five years ago. She has refused participation in this study, stating that she was well aware of terms of the refinance. Her son, however, insists that the refinance was predatory.

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<sup>2</sup> Participant names have been changed to protect their identities.

Key signs of predatory tactics:

- Borrower disposition - self-blame, embarrassment and the feeling that they should have "known better"
- Targeting - older and/or infirm persons are manipulated to refinance because they are less mobile and less able to seek alternatives

### ***Kimberly***

Kimberly is a single mother that is raising her children and a few grandchildren. She has owned her home since 1998. Soon after the purchase, a home improvement contractor approached her about repairing her siding and installing a new furnace and central air system. The contractor set her up with refinancing through a mortgage broker, whom she believes was complicit with the contractor. The refinance was taken out to cover home improvement costs and to pay off other debts. The loan was locked into a 14% interest rate, and many fees and credit insurance were embedded into the loan, some of which Kimberly was not aware. At the time of the refinance, the broker added her boyfriend to the mortgage, even though he was not contributing to the mortgage and Kimberly did not want them to do so. The refinance was flipped into another refinance, as a balloon payment was due at the end of the first year.

The contractor insisted on getting money up front in order to purchase materials and start work on the house. Because the mortgage broker spoke highly of him and the contractor gained her confidence through frequent visits and fancy brochures, Kimberly gave him the money. He never began the work, and Kimberly was never able to locate him. She later found out that the contractor pulled the same scam on twelve other people in her area. She turned to the Land of Lincoln Legal Assistance Foundation (LOLLAF) to settle the loan and collect her money from the fraudulent contractor and broker. When summing up her perspective about the home-buying process she noted:

*Not only black people, all poor people see the avenue to getting things done and not really looking into wording or anything... They are so desperate and they are so happy that they got this new thing, and I think they should have a class to help people – to know when people are ripping them off... understanding your paperwork, understanding how much interest they charge when you don't pay directly on time...*

Key signs of predatory tactics:

- Home Improvement Contractor approaches the resident

- Home Improvement Contractor arranged the loan through a Mortgage Broker "friend"
- Home Improvement Contractor wants money at front end to complete work
- Mortgages consolidate other existing debt at high interest rate (often higher than the rate that the loans were originally set at)
- Excessive or hidden fees
- Requiring credit insurance in order to originate a loan
- Adding irrelevant co-signers to the mortgage application creates the appearance of increased capacity to repay
- Loan flipping - repeated refinancing as a result of balloon payments

***Janet***

Janet is a single mother who is raising four children and one grandchild. Janet purchased her home in 1998. Since then, the loan has been sold three times. She decided to finance through a mortgage broker that she found in the yellow pages of her telephone book. The mortgage broker assured her that she would be shopping around in order to find Janet the best deal, but could only come up with an interest rate of 9.5%. Janet decided to go ahead with the loan even though she thought that the rate was high for her good credit because the broker insisted that this was the best rate on the market. Later, the broker told her that she would only need \$500 down to purchase the home, but when time came for the closing, the down payment jumped to \$20,000. Janet was already psychologically invested in purchasing the home and her current residence was sold, so she went ahead with the proposed mortgage.

At the time of the closing, she was rushed through the paperwork and was not given much information about her loan. As her mortgage papers were sorted through after the closing, she noticed that she had two mortgages taken out on the home, of which she had not knowingly consented. What's more, the house that she purchased had \$2,000 in back taxes that she had to produce, soon after the increased closing costs, or else lose the home. Janet was also concerned because she thought that her mortgage payments were going to be \$667 but they ended up being \$829. She did not know anything about the concept of the escrow.

A few months later, she learned that her mortgage had been sold. However, the notice of sale was sent several months after the transaction, and in the meantime, payments were sent to the wrong place and lost. As this happened, late fees and lawyer fees totaling \$13,000 were tacked

onto her payments (this was for only 4 months delinquency). As she began to recover and make double payments, she was issued a complaint for foreclosure. She filed Chapter 13 bankruptcy to keep the home and is working with LOLLAF to restore her credit. When asked to sum up her experiences with foreclosure she offered this advice:

*For first time homebuyers, read the fine lines. Know who you are dealing with and who may be involved in the process. Know where your payments go, try to get a fixed mortgage and not an adjustable one, preferably to a company who is not going to be selling your mortgage to another company.*

Key signs of predatory tactics:

- "Bait and Switch" tactics take advantage of the borrower
- Targeting - persons who need to make deals quickly in order to get into their homes
- Poorly completed title search
- Failure to explain the loan's terms
- Repeated mortgage sales without timely notification to the borrower
- Excessive fees

### **Mary**

Mary is a single mother raising two children. She purchased her home in 1998. She first attempted to get a loan through traditional banks but was denied because her credit was thin and slightly blemished as she was a college student. Her realtor referred her to a mortgage company. The mortgage company indicated that they bargained down the seller's mortgage price on her behalf, and she went forward with the mortgage that they were offering her because they told her that she was getting a good deal. She thought that she had a fixed interest rate and that her loan term was 15 years, though it was closed at 30 years. When her house was assessed, the broker over-appraised the value of the home in order to get a larger percentage of the down payment from Intergovernmental Grants, a program that helps first time homebuyers in the County. Excessive fees were packed into the loan without Mary's knowledge. At the closing, much of the paperwork was rushed through and skipped over, and she was told what sections to read and what to ignore. She noticed blanks on the paperwork but was misled about what would be filled in later. She trusted her real estate agent to look out for her best interests during the closing.

She made payments as required for six months with no problems before she received a letter stating that her interest rate was set to increase every six months. She knew that her interest rate was high at 10.75% but was not aware that it was an adjustable rate that could go as high as 17.25%. After properly paying the loan for the next six months at a rate of 13%, she received a delinquency notice. This first problem with her payments was a bank error, and the bank covered late fees. Mary resumed her timely payment schedule for another year. At that time, the address for payment remittance was changed but she was not notified of the change of address and her payment was late. She was charged late fees and lawyer fees for \$1,000, which she paid off immediately. A short time later, the remittance address was again changed without notification for five months, but this time Mary was not able to cover the compounded lawyer and late fees and the higher payments created by an increasing adjustable interest rate. She threatened the mortgage company that she had spoken with ACORN and she thought they were using predatory lending against her. At that time, the lender reduced her interest rate. This reduction was not enough to help her recover, so she filed for bankruptcy to keep her home. When recalling her experience with the loan closing she stated:

*I listened to what they said, basically. They said, "It's a good one." So I went through it, looked through the papers. Everything sounded right...to me... after a while I received a letter from the mortgage company stating that they could go up on my interest...And it was in the documents, in the papers, and I didn't know it at that time.*

Key signs of predatory tactics:

- Real Estate Agent refers borrower to a Mortgage Company "friend"
- High interest rate
- Failure to explain the loan's terms
- Deception about loan's terms
- Over-appraisal of home to distort value of collateral
- Excessive and packed fees
- Repeated remittance address changes without timely notification to the borrower

***Lisa***

Lisa is a single head of household on disability with one child. She took out a mortgage in order to renovate her home in 1996. A few months later, she refinanced her home at the suggestion of a contractor, who had been frequenting her store, in order to complete improvements on her home and on the shop where she ran her business and to pay for stock in her new store. He told her that he could help her get a loan regardless of her credit, and she agreed to go through his mortgage company. At the time of the closing, the lender appraised her home at \$30,000, when in reality the home was only worth \$5,000 by her estimation as there were many structural problems. This caused her property taxes and insurance to increase, and she was not able to cover them with her limited income.

At the closing, the lender rushed her through the paperwork and told her there was limited time to complete it so that she could cash her check that day. Additionally, Lisa specifically asked for a fixed rate because she had learned about fixed rates when she first mortgaged the house. After the closing, she realized that they had slipped in paperwork about an adjustable rate but had not notified her. The mortgage company held their ground, stating that she signed the paperwork and there was nothing that they could do. After she received the loan, the home improvement contractor wanted her to give them the money up front to start refurbishing her store, but she declined because she felt their price was too high. They were very angry with her and insisted that she should use them because they helped get her the loan. She remained firm, but never found another contractor to complete the improvements. After a year, she lost her store and became unable to make her payments on the house because of her unemployment.

Lisa went to LOLLAF for legal assistance with her mortgage. She eventually received a ruling that she no longer had to pay interest or fees and that all of the money previously paid was to be applied to the principal. She was able to keep her home. Additionally, the mortgage company was ordered to pay her back taxes. The company only made a few payments, and Lisa is worried that tax brokers will purchase her taxes and create more problems for her by applying high interest rates. She believes that tax brokers and appraisers are working together to help bring borrowers into foreclosure over their tax bills so they can proceed to buy up the properties. When discussing her encounter with the home improvement contractor, she recalled:

*[The contractor] said, "Well, I got this person that can get you a mortgage. It doesn't matter about your credit...don't matter anything... We can get you whatever amount of money you want..." And then they got angry with me. They said, "We get the [loan] money since we went and got you the mortgage... I said, "Well I got people that can do it for less than [\$7,500]"... They were angry so I never saw them again.*

Key signs of predatory tactics:

- Home Improvement Contractor approaches the resident
- Home Improvement Contractor arranged the loan through a Mortgage Broker "friend"
- Home Improvement Contractor wants money at front end to complete work
- Failure to explain loan's terms
- Deception about loan's terms
- Over-appraisal of home to distort value of collateral
- Excessive and packed fees

### ***Karen***

Karen is a single mother raising her teenage son. She purchased the home in 1998 through with an Intergovernmental Grant from the County's First Time Homebuyers Assistance Program. She was making approximately \$7/hour at the time of the loan and withdrew her 401(k) to cover the closing costs and down payment on the home. Since she was already putting income towards rent, she thought that she could afford to apply money towards a home of her own. She struggled with payments and has had a difficult time budgeting regular payments and incidentals arising from home repair and maintenance. A few years later, she left her job because of extenuating circumstances and went into default. She filed Chapter 7 and Chapter 13 bankruptcy in order to keep her home and to ward off bill collectors for outstanding medical bills. She was not aware of additional attorney fees that were tacked onto her late fees after the bankruptcy, though her bankruptcy lawyer stated that the mortgage company's attorneys did not provide services during that time. She approached Land of Lincoln but was turned away. In the meantime, her brother moved in and has been helping her with repair and maintenance. Karen has found a new job and relies on her new income at \$10/hour, her son's income, and her brother's income as she tries to get back on her feet. When asked to comment on her experience with homeownership, she stated:

*I almost knew it was going to be a struggle but wouldn't have known unless I had gone through this... You can say [considering miscellaneous costs associated with maintenance and upgrade in the home are important] but I don't think they'll...maybe smart people do, but I didn't. I never thought of the cost of wanting to put wall border in your living room...Being a homeowner you want to do it. You get it and it's the American Dream. I want to do this and this and this...*

Key signs of predatory tactics:

- Approving mortgages that the borrower does not have the capacity to repay
- Packed fees of which the borrower was not aware

### **Mercedes**

Mercedes is a married head of household on disability with three disabled children. Her son scouted a home improvement contractor from a neighbor's house in 1998 to replace her roof. The contractor arranged the loan through a mortgage broker that his clients frequently used. At the closing, she felt that the lender did not sufficiently explain the loan's terms. She has poor vision and relied on them to explain what she could not read. She thought they would let her know what all of her options were, especially since they knew she was preoccupied with getting her roof put back on. She noticed that they appraised her home at a price higher than its worth, gave her an interest rate higher than she expected, took out a larger principal than she expected and gave her a longer term than she wanted.

After the loan closing, the contractor took Mercedes and her husband to the bank to cash the first installment check for materials and payroll. He got two installments up front before the work was significantly started. She gave him the checks because she trusted him after he told her that he had been in business for 25 years. She was also anxious to begin work on her roof because it was leaking quite badly. The contractor hired a few men to start tear-off on the roof, but as soon as he did not pay the men, they stopped working. Her roof was left open through the winter and most of her home, especially her second floor, was destroyed. Mercedes and her family had to live in a shelter because the home was inhabitable. Mercedes approached the Attorney General and LOLLAF and has been able to eliminate her debt. The courts ruled that the contractor had to finish installing her roof, and he did complete that work. However, Mercedes has to pay for the damages incurred to her home from the open roof. When Mercedes was asked to sum up her experiences she noted:

*The main thing, if you're not too keen on mortgages and loans, is these companies will know within the first three words that you utter...they will know when you are not educated on what you are doing. So, you'll get eaten up right away. And you have been sold right there because they know that you don't know what is going on... [In the future,] I would go through the legal system to see what is going on because going through this taught me a great deal...Mortgage companies should have demands on them and tell their clients to bring their legal help with them before signing any paperwork so that no one would have to be hurt.*

Key signs of predatory tactics:

- Targeting - older and/or infirm persons are manipulated because they are less mobile and less able to seek alternatives
- Targeting - persons who need to make deals quickly to deal with structural problems in their homes
- Home Improvement Contractor arranged the loan through a Mortgage Broker "friend"
- Home Improvement Contractor wants money at front end to complete work
- Deception about loan terms
- Over-appraisal of home to distort value of collateral

### ***Susan***

Susan is a married, senior citizen head-of-household with three grown children. Her husband is terminally ill and her health is also failing. She refinanced her home in order to get a better interest rate. She was contacted by a mortgage broker via postal mail and was told that they would shop around for a rate in her best interests. The broker added her son to the mortgage, even though he was not contributing to the mortgage, and deliberately left off her husband because he was ill. She was told that life insurance was required on her son. She did not understand that she was given an adjustable interest rate and found her payments to be much higher than expected. Furthermore, her loan principal was higher than she had requested, and the term was for longer. A short time later, she refinanced again to get an even lower rate and also decided to take out money to complete home improvements. After she got the loan, a home improvement contractor approached her about fixing her roof. He claimed that she needed help fixing it because she was a senior citizen and that he would help her. He took the refinance money after he tore off the roof and left town without installing a new roof. She suffered damage to her living room, but never found the contractor.

A few years later, Susan was hospitalized and missed one payment. The next month, she doubled up her payments but they were sent back to her and she was told that she was in foreclosure. She feels that the mortgage company served her “fake” foreclosure papers in order to scare her into moving out of the home. She insists that there is no official foreclosure and was working with a family member who is a lawyer and LOLLAF. She eventually got sick of the harassment and decided to move to get a fresh start. When describing her feelings about the foreclosure, she stated:

*Sometimes I feel like giving up because this is such a hassle. My loan was the first thing that I ever did that I thought was good for myself. I have tried to be nice and to understand their mistakes, but they never told me anything. So I went to pray. I learned not to believe the sweet talk – I will never believe again.*

Key signs of predatory tactics:

- Targeting - older and/or infirm persons are manipulated because they are less mobile and less able to seek alternatives
- Home Improvement Contractor approaches the resident
- Home Improvement Contractor wants money at front end to complete work
- Deception about loan's terms
- Requiring credit insurance in order to originate a loan
- Adding irrelevant co-signers to the mortgage application creates the appearance of increased capacity to repay

### ***Phyllis***

Phyllis is married head-of-household and sole mortgage holder. She was approached by a home improvement contractor to do some exterior and interior renovations on the home. The mortgage broker and the home improvement contractor held a neighborhood barbeque later that week to introduce the business to the neighborhood. Residents filled out forms at the barbeque to try to get loans to improve their homes. The contractor arranged the loan through a mortgage company for Phyllis. She was surprised that she got a loan because she thought that her credit might have been too thin. She found out that they used her children's income to determine her capacity, even though they were not contributing to the mortgage. Phyllis told them that she only wanted her income on the document, but they did not comply. She also wanted the principal on the loan reduced, but they did not comply with that request either. They told her that she got a good deal, so she went ahead with the mortgage.

The contractor took around \$20,000 up front to do the work on the house, but completed minimal work. She could not find the contractor to get the money back. She went to LOLLAF to recover her money from the fraudulent contractor. She used the rest of the loan money to purchase appliances, electronics, and other household items and regrets it. After one year, the lender approached her about a refinance in order to lower her interest rate. She lowered her rate from 12% to 8%. She missed one payment on her house after several years with no problems and was served foreclosure papers. When describing her experience with the home improvement contractor she explained:

*He went after a poor, black woman on fixed income. I am going to sue for pain and suffering too. I almost paid off my home. I don't know why I took the extra money... I should've bought things little by little and paid them off... but the money excited me.*

Key signs of predatory tactics:

- Targeting - older and/or infirm persons are manipulated because they are less mobile and less able to seek alternatives
- Home Improvement Contractor approaches the resident
- Home Improvement Contractor arranged the loan through a Mortgage Broker "friend"
- Home Improvement Contractor wants money at front end to complete work
- Deception about loan terms
- Loan flipping – refinance after only one year
- Requiring credit insurance in order to originate a loan
- Adding irrelevant co-signers to the mortgage application creates the appearance of increased capacity to repay

## **GLOBAL THEMES<sup>3</sup>**

This study included one-on-one interviews with low- and moderate-income individuals who have gone through foreclosure in St. Clair County as well as individuals providing service to low- and moderate-income homebuyers in St. Clair County. Qualitative data helps provide the human side to the study of the prevalence, conditions, and outcomes surrounding subprime and potentially

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<sup>3</sup> The results explained in this section previously have been published in part in "Analysis – Stage Two" of *Mortgage Foreclosures and Predatory Lending in St. Clair County, Illinois 1996-2000* (Dearborn, 2003). "Analysis – Stage Two" is this report author's original work and has been granted permission for reproduction by Lynne Dearborn.

predatory lending practices in the County. Review of these interviews indicates that both characteristics inherent to the individual and characteristics typical of the process tend to lead to foreclosure. Patterns emerged in terms of borrower and procedural characteristics as respondents discussed their personal experiences. These global themes have been pieced together from overtly stated manifest texts but also from the latent texts that have been interpreted by the author. After each theme is explained, the similarities and differences between borrowers and service providers will be discussed.

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## **BORROWER CHARACTERISTICS**

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### ***Demographics and Geography***

More often than not, the typical demographic that seems to be targeted by predatory lending tactics are single, African American women with children. All of the borrowers included in this study were female heads-of-household, seven were African American, and six were single mothers with dependent children. Even in cases where the borrower was married, the female was the representative for the couple and had primary contact with lender intermediaries. When children were present in the household, these women made it clear that they wanted to have homes of their own in which to raise their families. Karen remarked, “[I] rented my whole life until one day I thought, ‘Wow. Could I be a homeowner? Wouldn’t it be nice not to have to rent anymore and raise my son in our own home?’ ...I never owned a home so I wanted one really, really bad.”

Service providers have noted that African Americans and single females are the largest portion of the client base for predatory lenders. Most service providers also believe that predatory practices are pushed based on geography and race. Because St. Clair County has a concentration of African Americans, one counselor stated, “Geography can be used as a proxy for race.” Foreclosures seem to be spread throughout the County and affect more African Americans because they have the largest racial composition in the area. Historically, African Americans in St. Clair County have had a difficult time getting credit despite the demand for decent and affordable housing for the area’s families because traditional lending institutions are scarce. In more recent years, credit has been a double-edged sword because though credit has become available it has been with predatory lenders. There is little doubt that the geographic concentration of unfair lending practices makes education more difficult. Counselors have noted not only that they are spread sparsely in terms of providing education but also traditional word-of-mouth education between

residents are less likely when the population seems to have a homogeneous misunderstanding of the mortgage process and a similar lack of knowledge about any options that they might have.

Demographically, the targeted borrowers that were included in this study were mostly homogenous by gender and race. Counselor estimations match up fairly accurately racially and geographically. Only one counselor made a divergent observation by stating that families are less likely because they do not meet income requirements to get loans. This contradicts the finding that many single mothers in this study were able to get loans. It seems more appropriate to note that single mothers in some cases should not be getting loans because they do not have the capacity to repay the debt. Nevertheless, this has not stopped lenders from underwriting these loans, and as a result, making them predatory.

### ***Economics and Education***

The borrower pool that was interviewed was entirely low-income. Frequently, residents either have or *perceive* flaws in their credit. Because of this, they cannot, *or think they cannot*, get loans through traditional means at a bank and turn to mortgage brokers for assistance. Four interviewees were surprised that they were able to get a loan, feeling that their credit was either blemished or too thin. Only two women approached banks first to try to obtain a prime loan, and both were rejected. Seven interviewees took out loans through mortgage brokers, assuming that the company would search for a loan that would give them, the homebuyer, the most advantageous terms for their credit. Moreover, borrowers have had education levels ranging from high school to some college. Though all of the borrowers reported themselves to have had average or above average reading levels, the majority was not familiar with many mortgage terms and felt that the lender would explain any key terms at the time of the closing. Many borrowers did not realize that lenders are not required, and are not likely, to counsel on the homebuyer's behalf. Mercedes illustrated her frustration after learning more about her mortgage terms after the paperwork had already been signed. "If you're lending me money, the least you can do is let me know what all my options are. I didn't learn half of it."

As a counselor points out, when offered the chance to own a home, many borrowers in St. Clair County are vulnerable to unfair or illegal tactics because they do not want to miss out on the opportunity to buy a house, especially in light of the fact that they historically could not. Credit has been hard to come by but appears to have increased in the last five years. Counselors have also

noted that there has been an increase in loans to low-income persons, even when borrowers should not qualify for credit, because brokers are more interested in making deals than in the capacity of the borrower to repay based on their debt-to-income ratio. When credit becomes available either through brokers or credit cards, borrowers get swept away by their new resources, assuming that they would not have been given the credit if they could not afford it. One counselor notes, "Generally, it is the client thinking they can do just about anything financially, when they can't." Every counselor has stated that education programs are the most important asset to borrowers before they decide to get a mortgage.

All of the targeted borrowers were homogenous in that they were low-income and did not have advanced general education or any formal training or education about the home loan process. This combination of earnings and lack of instruction with credit opportunities has provided predatory lenders with vulnerable targets disposed to accept fraudulent terms with little objection.

### ***Experience***

Borrowers are at a great disadvantage when they are getting their first mortgage and have never been through the process before. Seven borrowers were taking out a mortgage for the first time and had no other experience with the mortgage process. One borrower brought a friend that they thought could help them with the paperwork. Because they were unfamiliar with the process and the documentation, they did not know when something out of the ordinary was taking place. Karen admitted, "I'm kind of smart about some things but, you know, mortgage information and escrow and all that [shakes head in disagreement]." Additionally, most residents did not seek or receive home buying counseling before committing to a loan. In many cases, either the real estate agent, the home improvement contractor or the mortgage broker were very supportive of the purchase and made it seem like a good deal. Mary recalls:

*They basically said, you're going to get your house. And it was my first time so I knew nothing about mortgages. I listened to what they said. They said it was a good one. Everything sounded right to me. It was what the people were selling the house asked for and it was actually a little less so that was a good thing for me. They helped to bring the mortgage down...So, I did all the paperwork.*

A couple of interviewees were not happy with the terms that were offered to them, but either did not insist on changes being made or did not follow up at the time of the closing to make sure that their requests had been applied to the paperwork.

Counselors did not make any specific reference to the borrower's experience with the mortgage process, though one counselor does note that some of the predatory terms set by brokers that slip by inexperienced borrowers should be caught by the actual lender and that there is a dearth of due diligence.

Most of the borrowers were completely inexperienced. The only borrower who had previously gone through the mortgage process asked to get a few of her terms changed but never followed up to ensure that the changes had been made. Experience, in the context of this study, runs hand-in-hand with the borrower's lack of bargaining skills and familiarity with business transactions generally. Education would be helpful, but it would be sufficient only if it alerted borrowers also to the deceptions and self-serving motivations that lender's may employ.

### ***Disposition***

Almost all of the interviewees exuded either a hurried, stressed, or excited disposition when seeking the loan, all of which are easily manipulated through the process. Whether it was because they were in need of immediate home relocation or repair or they were simply anxious to purchase a home, they admittedly went through the loan process quickly and superficially. Karen admitted when asked about considering home-buying counseling, "I don't think I would have listened...I would have thought about it but I wanted a home so bad." Mercedes claimed, "I was a little under stress trying to hurry and get my roof on so it didn't start leaking. And they were rushing the paperwork through because of this guy [the contractor, who arranged her loan]."

All counselors agree that the dishonesty and deception used to close mortgages preys on naiveté and the confidence that borrowers have in lenders. One counselor states that she can, "talk to people until she is blue in the face and they will still sign on the dotted line when presented with the opportunity to own a home." Despite advice to the contrary, some borrowers will take the risk of investing with blinders on because they are eager to purchase or improve their homes.

The swiftness with which the loan is processed indicates how lenders take advantage of the borrowers trust in them. It is unlikely that people would go through the loan process so perfunctorily unless they trusted the people with whom they were dealing. All of the respondents were very surprised about the terms in their loans (after the fact) and some of the details that were skimmed over when they were closing on their homes. Therefore, it seems to be a combination of

lender abuse, lack of borrower education and borrower trust that has caused the rise in foreclosures. Any apprehensions that borrowers felt were usually allayed by comments that the loan was “a good deal.”

## **PROCEDURAL CHARACTERISTICS**

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### ***Intermediaries: Mortgage Brokers, Home Improvement Contractors, and Realtors***

Seven of eight interviewees obtained loans through mortgage brokers, with five borrowers introduced by a home improvement contractor and one set up through a real estate agent. Because St. Clair County has so few traditional lenders available, even those with good credit are isolated from prime credit opportunities. Brokers tend to be the only financiers of whom borrowers are aware, and even in the cases where traditional banks were accessible, credit was unavailable to the borrowers.

Most counselors specifically noted that mortgage brokers often are the culprits in writing “bad loans.” One observed, “The void created by a lack of reputable lenders for low- and moderate-income people has been filled by brokers who are willing to support bad loans and to concoct schemes with home improvement contractors or other go-betweens.” Counselors have also stated that middlemen often tack on fees for mortgage documents that are not included or for recording fees. Whether fees and commissions motivate the broker, loans are willingly made to borrowers who cannot afford them, and the borrowers ultimately end up in foreclosure. What’s more another counselor notes that, “dishonest brokers rely on middlemen to arrange shoddy home improvement financing and mortgages. They have little or no contact with the borrower.” Mortgage brokers benefit from the transaction by performing many origination services such as assisting with the application process, obtaining credit and employment reports, and advising on loan products. Brokers rarely act directly on behalf of borrowers.

St. Clair County has a dearth of traditional lending agencies, leaving potential homeowners wide open to the market power of the predatory industry. The County has plenty of borrower demand, but because traditional lenders are absent from the equation, the market can be controlled by the small group of creditors that will give loans in the area. Brokers are compensated both through direct fees levied on the borrower and indirectly through yield-spread premiums. Yield spread premiums are the rewards reaped from lenders to mortgage brokers for setting high

interest, large fees or other profitable terms onto a borrower. A yield spread premium is a payment a mortgage broker receives from a lender based on the difference between the interest rate and points of the loan the broker entered into with the borrower, and the par rate offered by the lender to the mortgage broker for that particular loan. It motivates middlemen to act contrarily as they look for the deals that will provide the greatest benefit for them through fees and premiums. While this study cannot draw conclusions about the specific gains that brokers reaped, it is obvious that the borrowers were unaware of broker motivations. Many of the interviewees thought that their broker was their representative and that the broker would seek the best terms for them.

### ***Failure to Emphasize and Explain the Loan's Terms***

Frequently, interviewees reported that the closing meeting for their homes went very hastily. Interviewees often times did not know the professional role of those people who were at the closing and directing their attention to certain terms. Often, terms were quickly explained or ignored altogether and then signatures were requested. Many times major components to their mortgages were not mentioned or explained. Janet explained her closing this way:

*They told me what to read and I did...at first it seemed kind of rush, rush because people were late. It was getting late...they were telling me what page was what. There was no way I could have read all of that and gotten through the process as fast as we did.*

The interest rate, especially when it was adjustable, was the most glossed over term. Of the residents who had adjustable rates, the women were neither aware of that expression nor aware of its inclusion in their mortgage. Mary stated that the lender told her that she would have a rate that would increase with inflation but that the rate was fixed. She was unaware of the six-month adjustment period on her rate and the large changes that would result from the adjustments. After speaking with ACORN, she contacted the lender and accused them of predatory lending. Soon afterwards, she received a notice stating that her interest rate had decreased. Because the borrower had the power of information on her side, she was able to protect herself.

Some interviewees did not understand the way that an escrow functioned. Janet and Lisa expressed confusion about the inclusion of taxes and insurance in addition to the principal and interest payments. Janet did not know that her payments were in escrow and found her payments to be 25% greater than she had expected. Lisa, on the other hand, wanted her payments in escrow

but was told that she could not do so. Both women had the escrow improperly explained, either by omission or purposeful deception. Borrowers that requested terms for less than thirty years were not granted the request and were not notified that the terms were set at thirty years. The interviewees who had asked for these terms simply assumed that their request was considered when completing the paperwork.

Counselors have backed these claims by stating that interest rates and hidden fees are the aspects of the transaction most misunderstood by the borrowers that they counsel. One counselor stated that *even with counseling*, clients sometimes leave “without even knowing what a HUD settlement form is.” Mortgages can be difficult to understand and the sheer volume of information that is involved can be overwhelming. Even when brokers do explain some items, the borrower may still not understand the consequences of the jargon. “Full disclosure” does not necessarily mean that a borrower understands what they are signing.

Lenders are not required to counsel clients. Borrowers, therefore, should seriously consider professional assistance when evaluating their mortgage options. Most of the borrowers in this study did not understand or recognize many of the terms that were introduced in the interview, including origination fees, broker fees, discount points, balloon payments, prepayment penalties, and mandatory arbitration. Even if they did understand the definition of the terms, it is unlikely that they would know how to use these terms to negotiate a better deal because all of the interviewees did not exude confidence about their knowledge of the process, even now that they have gone through it once.

### ***No Attorney Consultation***

None of the interviewees consulted attorneys or brought attorneys to their closings. The lack of professional support coupled with their own lack of education in the mortgage process made them particularly vulnerable to predatory tactics. Interviewees assumed that someone at the closing, possibly their real estate agent, the seller’s attorney, or their mortgage agent, would be looking out for their best interests. Lisa describes her relationship with her real estate agent at her closing:

*[I thought] that she would just tell me or something if I would've needed to stop and read something, that she would have told me. [The mortgage agent] asked me if there were any questions. He just went through it and asked if there were any*

*questions. And I looked at [the real estate agent] and she said everything's fine. They didn't show me everything with the mortgage person.*

Mercedes requested preventive action against predatory lenders by stating, "If [attorney's] offer [help] to people like me more often we may not make this mistake." Counselors have noted that borrower education on the mortgage process is very problematic but have also commented that counselors and service providers such as themselves are overloaded with cases.

Many of these borrowers do not realize that an attorney can help them with the process, or they cannot afford one. While attorney consultation is not necessarily the best answer to the problems in the County, professional assistance is indispensable because it not only provides the borrower with a resource for understanding the process but also can offer a skilled negotiator that is experienced with the behaviors and statements included in contracts.

### ***High Interest Rates***

For all of the interviewees, interest rates were higher than the market rate. During 1998, when most of the interviewees purchased their homes, the thirty-year fixed rate hovered around 7%, but some residents had rates ranging from 10% to 17%. These interviewees perceived their own credit to have either few or no problems. None of the interviewees searched for better rates from another company and stuck with the first rate that was offered to them, strengthening the notion that residents were satisfied with any credit, even when they were skeptical about the rate. Janet explains:

*[The mortgage broker] said they could finance the house at 9.5% and wasn't able to find anyone else to do it any cheaper. And at the time, I didn't know why the interest rate was so high because I didn't owe anybody anything. Everything was paid up. Of course, she said it was the lowest rate she could get to do it.*

Counselors have noted that borrowers need to be better educated about their options when seeking a loan and should be encouraged to search around rather than accept their first offer as if it was their only or best offer. One of the County's programs weeds out interest rates that are 13% or higher, but other programs admit that they do not deny supplemental grants assistance to borrowers, even when they suspect that the loan is predatory or abusive.

Subprime lenders charge higher interest rates in order to defray the risk built into loans to borrowers with problematic credit. However, this process has been abused in the County and

borrowers with no known credit problems or even just small problems can be charged excessively high interest rates. Even when counselors are available and offer advice about loan terms, borrowers will sometimes accept the credit offer because they do not want to risk losing it or feel that it genuinely is the best rate they can get.

### ***Large Broker Fees***

Brokers attached large fees at the closing that the residents were not aware of prior to their remittance. When available, paperwork showed that interviewees incurred broker fees ranging from \$1,000 to \$3,400. Many times borrowers did not understand the nature of the fees and/or were not aware of them until after the closing. One counselor supported this claim by mentioning that broker fees are often packed into loans.

Often times, lenders may include these fees into the loan in order to collect interest on the fees. After the documents are signed and the cancellation period runs out, the borrower is locked into the terms. While the fees themselves were present in interview discussions, it stands to note that it was not the terms alone, but the lender's omission of explanation and the borrower's inexperience that made the fees problematic to the loan.

### ***Home Improvement Scam***

Five out of eight interviewees had their financing arranged through a contractor. Home improvement contractors may pursue low-income neighborhoods because people are looking to repair their homes and because their inexperience makes them vulnerable to the contractor's credit scam. Because many of these people are unable to get credit, the contractor may arrange for the loan through a broker or lender with whom they normally deal. The loans are typically arranged so that the contractor receives payments before the work is completed and assessed for quality. This arrangement places power in the contractor's hands because in the absence of performance and payment bonds, the contractor may not feel any obligation to finish the work or to complete the work professionally and the homeowner is trapped with a loan to pay off. Mercedes explains:

*He [contractor] told me he had done this type of work for 25 or close to 30 years. And he had done several homes in the area...the only thing he was betting on was getting his hands on the money...One corner of the house was like Niagara Falls, so we had that patched up until we could get the roof done... [My son] saw him working down the street and told him to stop by our house and that we would like to see about getting work done on our house. So, when he came by I figured he*

*fixed and finished the job there. I thought he was a legit person... He did get a little information from me and talked to someone at [the mortgage company]...I talked to the guy [at the mortgage company] each day about the problem I was having with [the contractor]. I lived in my house with no roof for about two months. I almost froze. I had to go live in a shelter.*

One counselor corroborated the stories about home improvement contractors acting as intermediaries between borrowers and brokers. However, counselors have not emphasized the problem with home improvement scams. Because St. Clair County has large areas of residential disinvestment, there are many home-buyers who are seeking home improvements. In light of the experiences of this study's five interviewees and their knowledge of other persons who have been targeted by contractors, counselors should be on guard towards this lender behavior.

### ***Failure to Notify Mortgage Sale or Payment Location Change***

Every borrower had incurred late fees because payments were remitted late. Of particular concern is when payment delays are the fault of the mortgage company. When the mortgage is sold to another company or the payment location is changed, it is the responsibility of the mortgage company to notify of the change. Four of the residents in this study were informed that their mortgages were sold to another company. This change was particularly troublesome for a few of the interviewees. Mortgage companies did not inform them that the change had occurred in a timely manner. They were notified only after hefty late fees had been accrued to their accounts because payments were not received. Payment notes were typically sent months late and paperwork was not organized. Janet had four mortgage companies in five years, with each change creating more problems for her. It seemed to these borrowers that the new companies would just start billing whatever they wanted without consideration of the loan's terms. It is possible that these loans were refinanced with new terms when they were sold but the borrowers were unaware. In this study's cases, paperwork was not available to make that determination. At any rate, address notifications were sent late, payments were lost, and late fees piled up. Similarly, Mary had the payment destination changed with the same mortgage company and was notified only after five months of remitting to the wrong location. Late fees and lawyer fees were tacked on to her account and she was forced to file for bankruptcy because she could not make the payments. Counselors did not make specific note of this practice.

While this tactic was only applied to two cases in this study, it is significant because it signals an adaptive behavior by the lender to put an individual into default. It is not enough that they closed an abusive, deceptive loan. When the borrower actually makes payments and attempts to keep up with the terms of the loan, lenders resort to other methods to try to force a default. If this tactic goes unnoticed, many borrowers may find themselves making payments for long periods of time and then going into default because of circumstances outside of their control. No other literature has been found that documents this behavior, and it should be monitored in the future.

## **DISCUSSION**

This study attempted to explore and document key characteristics of predatory lending transactions. After analysis of personal testimonials from borrowers who were targets of suspected predatory lending tactics and service providers who counsel these individuals, it appears that for the cases that were collected, all of the foreclosures were a result of predatory motives on the part of mortgage brokers, and sometimes, a home improvement contractor. These predations were complex and resulted from a combination of borrower targeting, abusive loan terms and fraudulent lender-borrower interactions.

On the lender-side, the most obvious abusive terms were high interest rates, deception about adjustable interest rates, and excessive or hidden fees attributed to the broker, attorney, or late fees. However, the terms alone do not bring out the dynamics of the loan process. Most of the cases included in this study converge along procedural lines. For instance, intermediaries such as mortgage brokers, and when applicable, home improvement contractors originate loans that have little chance for success. Studies have shown that foreclosures tend to be highest among third party originated loans, through mortgage brokers or other agents, because these intermediaries reap the benefits of originating the loan but often do not bear the responsibility for loan performance (Alexander, Grimshaw, McQueen, & Slade, 2002). In many ways, this method applies a hit-and-run approach to the borrower and is effective because the borrower is blindsided by a combined effect of terms and aggressive sales tactics. As soon as the mortgage papers have been signed, the borrower is left with a pile of bills and limited recourse for dealing with them.

When the lender's disposition is combined with a borrower that has no legal representation or oversight, the context is primed for an array of predatory behaviors. This study uncovered cases

where borrowers were out-and-out deceived about their loans, believing that their term lengths, interest rates and monthly payments were different than the closing papers documented. Other times, the deception was by omission, as terms were glossed over or rushed through at the closing. Despite the fact that “disclosure” may have taken place in written form, the principle of disclosure was violated and the borrower exploited. What is even more disturbing is the ad hoc sabotage that lenders will employ when borrowers keep their loans on track. In St. Clair County, several borrowers had attorney and late fees accrue on their accounts without their knowledge because they had not been informed that the address for payment had been changed, in particular because their loan had been flipped. Any person with any loan type is vulnerable because it thwarts the borrower’s attempts to keep current despite the blatantly predatory terms and behaviors applied at the front end of the transaction. This tactic invites borrowers and counselors to remain vigilant over the life of the loan and to become properly educated about maintaining equity over time.

On the borrower-side, there was a clear pattern of targeting that was directed foremost towards low-income female heads of household, and in St. Clair County, these females were often African American and single mothers. Geographically, these individuals were at a greater risk because St. Clair County is isolated from sound credit alternatives. In this study, this target borrower was seemingly set up for failure. Once these women were brought into negotiations for the loan, their lack of experience with and understanding of the process coupled with their apparent anticipation (obvious through excitement, trust, or anxiety) left them psychologically and emotionally exposed. This exposure catalyzed the broker’s strategy, helping it to move hurriedly and smoothly into a predatory loan. None of the interviewees renegotiated the terms of the loans, even against their own apprehension about the terms and the way in which process was being conducted. They felt uneasy voicing their concerns because they did not have a sufficient understanding of mortgages to pose an argument.

The only significant difference found among borrowers was their assignment of blame. About half of the borrowers included in this study blamed the contractor or broker for their foreclosure. The other half felt that they were responsible for their outcomes because they should have been more informed about the process. Many borrowers who were solicited for inclusion in this study but declined, had cases similar to Sheila’s, as outlined in the Borrower Vignettes section

of this report. This self-blame and embarrassment has probably prevented many more borrowers from coming forward both in terms of this study and generally to seek legal recourse. Therefore, education for borrowers in the County should not only provide information about mortgages but also actively promote an empowering image that accurately demonstrates the insidiousness of predatory lender behavior.

### ***Limitations***

The interview process met with many obstacles. The difficulties manifested themselves while trying to obtain initial leads, negotiating interview appointments from cold calls, and convincing the identified leads that their experiences with the lending process qualified them for inclusion in a study on predatory lending practices. Many residents in St. Clair County, possibly tired of being surveyed time and again by anonymous waves of University of Illinois students under the auspices of the East St. Louis Action Research Project (ESLARP) or convinced that the outcome of their foreclosure was their own fault, were unresponsive to interview invitations. Concomitantly, St. Clair County staff provided limited assistance to researchers with leads, input, or feedback during most of the study's timeframe.

The chain sampling, or snowball, method is problematic because it relies on the existing social networks of those that have already been interviewed. While this method is useful in identifying very specific groups, it is biased because it relies on limited pools of interviewees. As noted earlier, this sampling cannot be used for statistical analysis because it was not drawn from a random, representative participant pool.

With borrowers, access to participants was limited because contact was disabled by disconnected telephones, unlisted phone numbers, and relocated residences due to foreclosure. During the interviews, information gathering was hindered for the following reasons:

- Lack of childcare is distracting to interviewer and interviewee
- Mortgage files were incomplete because a lawyer has them or the documents are missing
- Unfamiliarity with the mortgage process creates problems answering questions
- Time elapsed since mortgage closing makes recall difficult
- "Outsider" interviewer adds an element of distrust

***Future Directions***

The most common recommendations cited to combat predatory lending are the following (Carr & Kolluri, 2001; Carr & Schuetz, 2001; ACORN, 2001b, 2002; Engel & McCoy, 2001):

- Increased regulation and legislation
- Increased incentives for traditional lenders to take on subprime loans and offer prime credit to qualified applicants in disinvested locations
- Enhanced borrower education and training

This report specifically calls for the prioritization of borrower education. This study is borrower-based, focusing on the demand-side perspective, and segues practically to the implementation of borrower education programs. Moreover, because of the inertia in the regulatory and legislative sectors, more immediate and preventative impressions can be made on borrowers by providing them with the skills and information that they need to actively shape their own futures. Knowledge of personal experiences is vital to crafting programs because they reveal the context and climate of lending behaviors by focusing intently on the outcomes of local borrowers. Furthermore, stories are an empowering, memorable, and engaging illustrative tool that more clearly demonstrates complex mortgage transactions.

A caveat: Borrower education does not necessarily mean that borrowers will automatically be equipped to effectively negotiate with any new knowledge that they gain through programs. For this reason, borrowers should be informed of the benefits of using a personal housing counselor or attorney before signing any documents. Borrower education programs will not reverse the tide of predatory lending alone. Information and training sessions must be understood as a component to a multidimensional approach as outlined above. Ideally, regulations will institute mechanisms that trigger heightened scrutiny in lending transactions. However, the regulation system is limited in its capacity because making distinctions between subprime and predatory lending can be difficult and much of the predatory transaction is not a part of the public record. Even if triggers can be operationalized, finding a threshold that is balanced may be a demanding task. What's more, previous efforts to spur the traditional lending community to become more actively engaged in subprime lending has gone largely disregarded, as few incentives have proven to provoke their interest.

At any rate, the tripartite model effectively seeks to transform the status quo for key stakeholders by modifying the rights of subprime lenders, encouraging traditional lending institution investment, and equipping borrowers with the knowledge to protect themselves. It should be anticipated that a unified incorporation of all three dimensions will reduce the incentives and opportunities for abusive practices to take place and therefore, reduce the incidence of predatory lending.

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## **APPENDIX A. HOEPA PROHIBITIONS**

The Home Ownership and Equity Protection Act prohibit the following terms (Federal Trade Commission, 2004).

- Balloon payments - where the regular payments do not fully pay off the principal balance and a lump sum payment of more than twice the amount of the regular payments is required - for loans with less than five-year terms.
- Negative amortization, which entails small monthly payments that do not fully pay off the loan and that cause an increase in total principal debt.
- Default interest rates higher than pre-default rates.
- Rebates of interest upon default calculated by any method less favorable than the actuarial method.
- A repayment schedule that consolidates more than two periodic payments that are paid in advance from the proceeds of the loan.
- Most prepayment penalties<sup>4</sup>, including refunds of unearned interest calculated by any method less favorable than the actuarial method.
- A due-on-demand clause,<sup>5</sup> which allows the lender to demand repayment for any reason. It also allows the lender to increase the interest rate on the loan, even if the property is not being sold, because if the new rate is not accepted, the loan can be called.
- Making loans based on the collateral value of your property without regard to your ability to repay the loan. In addition, proceeds for home improvement loans must be disbursed either directly to you, jointly to you and the home improvement contractor or, in some instances, to the escrow agent.
- Refinancing a HOEPA loan into another HOEPA loan within the first 12 months of origination, unless the new loan is in the borrower's best interest. The prohibition also applies to assignees holding or servicing the loan.
- Wrongfully documenting a closed-end, high-cost loan as an open-end loan. For example, a high-cost mortgage may not be structured as a home equity line of credit if there is no reasonable expectation that repeat transactions will occur.

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<sup>4</sup> Exceptions: the lender verifies that the total monthly debt (including the mortgage) is 50 percent or less of one's monthly gross income; the borrower gets the money to prepay the loan from a source other than the lender or an affiliate lender; and the lender exercises the penalty clause during the first five years following execution of the mortgage.

<sup>5</sup> Exceptions: there is fraud or material misrepresentation by the consumer in connection with the loan; the consumer fails to meet the repayment terms of the agreement; or there is any action by the consumer that adversely affects the creditor's security.

**APPENDIX B. PREDATORY LENDING INTERVIEW WITH INDIVIDUALS**

General Information

Interviewer:

Date:

Borrower's name:

Lender's name:

Mortgage holder at time of foreclosure:

Date of foreclosure:

Current address

Current street address:

City: State: Zip:

Phone – Home: Work:

Address of foreclosed home

Street address:

City: State: Zip:

Borrower Information for Primary Borrower

1. Age:
  
2. Education level: (circle the highest level completed)  
Grade: 1 2 3 4 5 6 7 8 9 10 11 12  
College: 1 2 3 4 higher
  
3. Race/Ethnicity: African-American Asian Hispanic White Other
  
4. Gender: Male Female
  
5. Ability to read English: Not Able Poor Fair/Average Above Average
  
6. Current Household Income:  
Household income at time of the loan application:
  
7. Why did you borrow the money? Choose from the following:  
To purchase home  
To pay other bills/consolidate debt  
Improve cash flow  
Refinance existing loan for a better rate  
Refinance existing loan for a lower monthly payment  
Home Improvements

Other:  
More Details:

**Loan Application Information**

8. At the time of the loan, what was your perception of your credit record?  
Poor Few Problems Good Excellent  
Comments:
9. Did you first seek this loan from a traditional bank? Yes No  
If not, why didn't you try a traditional bank?
10. If you sought the loan from a traditional bank, were you denied? Yes No  
What was the reason given for the denial?
11. If you were denied from a traditional bank, did you try another bank?  
Yes No  
If not, why didn't you try another bank?
12. How did you choose your lender?  
Advertisement on TV, radio or newspaper  
Flyer  
Yellow pages ad  
Friend/acquaintance recommended  
Seller arranged financing  
Manufacturer arranged financing  
Loan broker (individual bringing together lender and buyer) contacted you:  
phone call home visit  
Lender contacted you: phone call home visit  
Home improvement contractor arranged financing  
Other:
13. Did a loan broker arrange the loan? Yes No  
If yes, how was the broker chosen?
14. Did the broker say who s/he represented? Yes No  
If yes, who did s/he represent?
15. Describe the initial meeting with the broker/lender:  
How: phone in person  
Where:  
Date (Month/Year):  
Who was present:  
What happened:

**Documentation**

16. Review the documents and compare to check list for those present. Ask if missing documents are elsewhere or were not given to the client. (Some definitions from [www.mortgage-net.com](http://www.mortgage-net.com))

Good Faith Estimate (An estimate of the settlement charges the mortgagor incurs at closing. It is required by the Real Estate Settlement Procedures Act (RESPA). Mortgagor should have received one when she applied for a mortgage loan.)

HUD-1 Settlement Form (A closing document required by HUD that outlines the settlement cost of a loan. The closing agent prepares this document and sends it to the buyer upon closing.)

Federal Truth In Lending Form (A federal regulation requiring creditors to provide full disclosure of the terms of a loan including the terms of the loan and the annual percentage rate.)

Notice of Right to Rescind (A 3-day business period (72 hours), during which time the borrower can cancel the transaction. In the mortgage industry applies to refinance transactions only. During this period, funds cannot be disbursed pending the decision of the borrower. This regulation is part of the Truth in Lending Act, Regulation Z. Under certain emergency circumstances, this requirement may be waived.)

Adjustable Rate Mortgage (Also known as a variable rate mortgage. The interest rate on these mortgages changes periodically.)

Balloon Payment (Usually a short-term fixed-rate loan which involves small payments for a certain period of time and one large payment for the remaining amount of the principal at a time specified in the contract.)

Credit Insurance (Insurance may be required to insure the mortgagee against default. Financed, or single premium, may be abusive.)

Prepayment Penalty (Fees paid by the borrower if they pay the loan before its due date.)

Mandatory Arbitration Clause (Clause which prevents mortgagor from taking legal action against mortgagee.)

Other:

17. Where did the loan closing take place?  
Lender's office  
Borrower's home  
Attorney's office (name):  
Title Company Office (name):  
Other:
18. Who was present?
19. Was an attorney present? Yes No Don't Know  
How many?
20. Did you have your own attorney present? Yes No
21. Did you ever consult an attorney? Yes No
22. Who did you think the closing attorney represented? You Lender Seller You  
and lender You and seller Seller and lender
23. Did you have any complaints about the attorney? Yes No  
Describe any complaints:
24. Did you read the documents before signing them? Yes No  
If not, why didn't you read the documents?  
Inability to read  
Didn't have time  
Didn't know to read the documents  
Instructed not to read the documents  
Other:
25. Did you sign documents on more than one occasion? Yes No  
If yes, describe:
26. To your knowledge, was your signature forged on any documents?  
Yes No  
If yes which ones?
27. To your knowledge, was anything falsified on your loan documents?  
Yes No  
If yes, what?
28. Do you have a copy of all the documents you signed? Yes No
29. Were all documents completely filled out when you signed them? Yes No  
If not, describe what was not completed:

Cancellation

30. Were you told about having three days to cancel the contract? Yes No
31. Did you attempt to cancel the loan? Yes No  
If yes, describe what occurred:

Mortgage

32. Did you understand that your house could be foreclosed and taken if you were not able to repay the loan? Yes No  
If no, please explain:
33. Was the mortgage a first, second or third mortgage? First Second Third
34. To whom were you making mortgage payments before foreclosure?
35. What if any were different at loan closing? Fill in the chart below. If different what were the explanations for changes?

	Said Before Loan Closing	Actual at Closing	Explanation given, if any
Interest Rate			
Origination Fee			
Discount Points			
Broker Fees			
Term			
Two Mortgages Required			
Fixed Rate or Adjustable			
Balloon Payments			
Credit Insurance			
Prepayment Penalty			
Mandatory Arbitration			

Debts

36. Were any debts paid off with this loan? Yes No  
If so which ones? Fill out this table:

Creditor	Amount Paid	Interest Rate	Collateral (Yes or No), What?

Refinancing

37. How many times have you refinanced your home? 1 2 3 4 5 6 Other:
38. Reason for each refinancing?

	First	Second	Third
Lender			
Date of refinancing			
Reason for refinancing			
Were you behind on payments at the time of foreclosure?			

*If there were more than 3 refinancings, please attach a separate sheet of paper.*

39. Who initiated the refinancing? Please describe:
40. Were you promised any gifts for refinancing? Yes No  
If yes, please describe:

Insurance

41. Did you purchase credit insurance? Check all that apply  
Life  
Property  
Mortgage guaranty  
Disability  
Unemployment  
Other:
42. Did you believe the credit insurance was required? Yes No  
If yes, why?
43. At the time of the loan, did you know that you had bought insurance?  
Yes No  
If no, when did you discover that you had?
44. To your knowledge, did the insurance policy cause any problems contributing to foreclosure?  
Yes No  
If yes, please describe:
45. If the loan had been refinanced, was the insurance premium refunded if full term coverage had not elapsed? Yes No Do Not Know

Post-Foreclosure

46. Do you know what happened to the property after the foreclosure?
47. Who took possession of the property?
48. Was the property used as a residence?

- 49. Was the property torn down?
- 50. Have you visited the property since?  
If yes, what is the use/condition?
- 51. How often do you visit the property?

## **APPENDIX C. TELEPHONE INTERVIEW WITH SOCIAL SERVICE AGENTS/HOUSING COUNSELORS**

*You need to let them know their responses will be confidential and their name will not be used in any reporting of the findings of the study – we need to incorporate the same basic consent as the other interview guide but we don't have to get any signature.*

1. Name:
2. Position:
3. Length of time in position:
4. Any prior experience with new homebuyers or homeowners in St. Clair County:
  
5. Describe what you do in your current position.
6. Describe your involvement with clients' lending and/or foreclosure processes.
7. Do you think there has been an increase over the past 10 years in the number of foreclosures or threats of foreclosure in St. Clair County?
8. If so, do you think the number of foreclosures is increasing now, or decreasing?
9. Do you think foreclosures have increased more in some parts of St. Clair County than in other?  
Where?
10. Why do you think that might be the case?
11. If so, do you think it has increased for some groups more than others?  
For which groups?
12. Why do you think that might be the case?
13. If yes, do you think the increase in foreclosures and/or threats of foreclosure is caused by banks willingness to make loans to low-income households?
14. Do you think the increase in foreclosures and/or threats of foreclosure has happened because of an increase in unethical or illegal conduct by those involved in selling, marketing, or those involved in making mortgage loans?
15. What types of abuses have you encounter? (Excessively high interest rates, refinancing schemes, flipping schemes, home repair scams?)
16. Generally, what are some possible solutions to the abuses you feel are the cause?

17. Do you specifically have a role in preventing foreclosures or abusive lending, and what strategies do you employ?
18. If you are in any way involved in homebuyer counseling, do you see the need to incorporate information on abusive loan terms, refinancing schemes, etc. in homebuyer counseling?
19. *We will be conducting some seminars on predatory and abusive lending in St. Clair County and possibly producing educational materials to use in conjunction with the seminar. Find out if they think their organization might want us to conduct a seminar or provide materials for their clients.*
20. If yes, can you please supply an address/phone number of a person in your organization that we would want to contact about scheduling a seminar or transmitting educational materials?