

Why does Los Angeles need to have its own ordinance?

A. Because of the Community Reinvestment Act, flexible loan underwriting and marketing by the lending industry, the recession and lower home prices in the 1990's, many low, moderate and middle-income people in Los Angeles were able to buy a home. However, these same homeowners are now ready to be targeted by predatory lenders. The reason they are potential targets is because their property values have increased, but they may still have low incomes, so they are 'equity rich', but 'cash poor'. (Testimony by Sally Richman, H&CD Hearing, 2/21/02, p. 7, lines 9-17.)

B. Property values in Los Angeles County shot up \$39 billion last year, a 6.2% hike, for the fourth straight year of strong real estate markets, most recently fueled by low mortgage rates. (*Local Property Values kept Rising in 2001; Assessment: L.A. County saw 6.2% hike despite Sept. 11 effects...* Los Angeles Times, 7/31/02.)

C. LAHD makes loans to homeowners. If a homeowner obtains a subsequent loan, the lenders want LAHD to subordinate the City's loan to the new loan. City loan officers review the subsequent loans and have stated that 8-20% of the subsequent loans they see are predatory. (Testimony by Sally Richman, H&CD Hearing 2/21/02; p.8, lines 5-15.)

D. Rosemarie Ibañez of LAHD testified that Los Angeles has an older housing stock than the rest of the state, and older homes require more maintenance. (Statewide, 37% of single family homes were built before 1950, but in Los Angeles, over 50% of the homes were built before 1950. Elderly homeowners have home equity, but fixed incomes, and are, therefore, prime targets of predatory lending. (H&CD Hearing 4/17/02; p. 12, lines 22-24, p. 13 lines 3-5 and lines 1-3.)

E. Because of the process of gentrification, where property values may increase, numerous elderly, minority, and fixed income homeowners in the City of Los Angeles may be perceived as "house rich and cash poor," and thus are prime targets for predatory lending practices. (Testimony of Rosemarie Ibañez, LAHD, H&CD Hearing, 4/17/02, p.12, lines 23-25 and p.13, lines 1-3.)

F. Reverend Norman Johnson, Executive Director of the Southern Christian Leadership Conference, supports the creation of a Los Angeles ordinance because these lending practices are immoral and they disempower the people of the community. (H&CD Hearing, 2/21/02, p. 29, lines 1-2 and lines 14-15.)

G. *Stolen Wealth: Inequities in California's Subprime Mortgage Market* showed that in Los Angeles there was:

- A higher response to marketing by borrowers (65% in LA vs.38% overall),
- A higher percentage who used a mortgage broker (51% in LA vs.37% overall),
- Higher reports of changes in key loan terms at closing (76% in LA, vs. 69% overall)

(H&CD Hearing, 4/17/02, p. 12, lines 9-14.)

H. Los Angeles' housing stock is older than overall statewide. (Testimony of Rosemarie Ibañez, 4/17/02, p. 12, lines 23-26, p. 13, lines 1-6.) (Source: US Census 1990 and 2000.)

I. Barbara Jones, Staff Attorney in the Consumer Unit of the Legal Aid Foundation of Los Angeles (LAFLA), testified that LAFLA would like to see a local ordinance that:

- Prohibits a loan which would require a borrower to pay more than 50% of their income to pay their monthly mortgage payments;
- Prohibits fees or penalties for prepaying the mortgage; and,
- Precludes home improvement contractors from recommending lenders who charge 4% points and fees to obtain a loan.

(H&CD Hearing, 4/17/02, p. 28, lines 3-9.)

J. Ron Willman, victim, testified that paying off his Household loan cost him a total of over \$35,000, which was twice what he had originally in credit card debt. The state law has some protections, but it does not prohibit prepayment penalties on high cost loans or even provide any limitation on the amounts [of penalty] that can be charged. (H&CD Hearing, 9/12/02, p. 22, lines 1-4.)

K. Abdullah Muhammad, ACORN member, re-stated that in ACORN's study, *Separate and Unequal: Predatory Lending in America*, in Los Angeles today 26% of these loans go to Latinos and 41% to African-Americans as compared to 17% in the White community. ACORN was instrumental in the passage of AB 489, but it still has a lot of gaps in it for abuses, and that is why it is important to have a local ordinance dealing with predatory lenders. (H&CD Hearing, 9/12/02, p. 22, lines 14-18.)

L. Kevin Stein, Associate Director of the California Reinvestment Committee (CRC), a statewide advocacy coalition comprised of over 200 community-based organizations and a few public agencies, which promotes increased access to good credit for low-income communities and communities of color in the State, provided five points in his testimony. The CRC: 1) sees a clear need for an anti-predatory lending ordinance in Los Angeles, 2) believes the City has the legal authority to enact such an ordinance, 3) feels there is a small window of opportunity for action given the events in Sacramento, 4) believes any ordinance passed would have no negative impact on the ability of residents to access credit, and 5) urges Los Angeles to develop a strong ordinance that would have substantive legal protections. (H&CD Hearing, 9/12/02, p. 26, lines 25-26, p.27, lines 18-25) (Sources: *Stolen Wealth*, and 9/12/02 letter submitted by CRC for the record at the 9/12/02 H&CD Hearing.)

M. Hernan Vera, Directing Attorney, Consumer Law Project at Public Counsel, testified to the perspective of legal services providers who confront consumers across their desks and are not able to do much about it. They believe an ordinance would really give them the tools that they need to tackle this problem. He wanted to dispel the myth that these are tragedies that only occur by the slight-of-hand of door-to-door salesmen or conmen. These are big sophisticated companies. (H&CD Hearing, 9/12/02, p. 33, lines 3-10 and lines 13-15.)

N. Osbaldo Velasquez, from Pacoima is an ACORN member. By comparing [loan] interest rates of various people, 15% from one family to his parents' 6 -7%, he knows there is something wrong. Passing this ordinance is important, not only for the families individually, but also for the local economy. (H&CD Hearing, 9/12/02, p. 38, lines 16-17, and lines 25-26, p. 39, lines 8-10.)

O. Lez Trujillo, Director of Housing Counseling for ACORN Housing, provided testimony at the hearing. They are a HUD-certified housing counseling agency and provide one-on-one counseling to existing homeowners. State law [threshold] defines a high cost loan as much higher in terms of interest and fees than a high cost loan really is. State law lacks enforcement mechanisms. There is no assignee liability – if the loan is sold, the new company is not held to the restrictions. State law does not require clients of high cost loans to see a loan counselor. (H&CD Hearing, 9/12/02, p. 39, lines 16-20 and p. 40, lines 15-23.)