

Loans without borrower benefit and loan “flipping”

A. [The Model Act] includes two circumstances under which refinancing will be presumed to be illegal flipping...if the primary tangible benefit to the borrower is interest rate reduction and it will take more than four years for the borrower to recoup the costs of obtaining the lower rate loan. Because this recoupment can only occur through savings in monthly payments, the up-front fees charged on the new loan have to be amortized over the course of four years (48 months.) If these fees are not paid off within 48 months, then the lower interest rate did not justify the loan, because while the borrower may have slightly lower monthly payments, they come at the expense of increasing the loan principal to pay closing costs, thereby stripping equity from the home. This provision [of the Model Act] sets an objective standard whereby a determination can be made about whether an interest rate reduction provides a sufficient benefit to the borrower. (*Home Loan Protection Act: A Model State Statute*, p.18.)

B. The second category of flipped refinancing [presumed to be illegal flipping by the Model Act] is the refinancing of special mortgage loans that carry below-market rates or other payment terms beneficial to the borrower. These loans are generally mortgages used to purchase homes for first time homebuyers (e.g. VA or Habitat for Humanity) who could not attain homeownership without a special program. (*Home Loan Protection Act: A Model State Statute*, p.18.)

C. Lilian Gil obtained a loan that provided no benefit to her in 1999. Two loans were combined into one, with over \$15,000 in fees. The loan is for 30 years, which is longer than her previous loans. She must pay \$2,000 per month and the interest rate is 11.7% (H&CD Hearing, 2/21/02, p. 16, lines 25-26, p. 17, lines 1-2, p. 17, lines 6-7, p. 17, lines 16-18, and p. 17, lines 19-23.)

D. Helen Coleman, also obtained a loan without any borrower benefit. She lost her home that she had owned since 1985 through a refinance loan. (H&CD Hearing, 2/21/02, p. 18, lines 9-12.)

E. Mario Luna, did not receive borrower benefit from his loan. He always paid on time. He consolidated his two mortgages in 2001, for a 10.8% interest rate with an \$8,000 prepayment penalty, even though he had good credit and a 643 FICO score. (H&CD Hearing, 2/21/02, p. 20, lines 19-21, p. 21, lines 1-2, p. 21, lines 6-11 and p. 21, lines 8-24.)

F. LeFrancis Arnold, real estate broker, board member of the Multicultural Alliance, and member of California Association of Realtors, spoke about other horror stories he has come across in his experience. He talked about loan flipping and seeing nine loans in twelve years for one customer. He warned homeowners with good credit and payment records to talk to a good loan company – and if they cannot afford the payments, not to take the money. (H&CD Hearing, 2/21/02, p. 35, lines 17-26 and p. 36, lines 1-9.)

G. Therese Brown, an ACORN member from Chatsworth, is another victim of a predatory loan that did not give her any borrower benefit. She bought her house in 1995. She needed repairs, received a “live check” from a predatory lender and cashed it in. They convinced her to increase the amount and it turned into a second mortgage secured against her house. She then was pressured to refinance her mortgage with them. Her initial interest rate of 8.25% became 11%; 7.25% of the loan amount went to points compared to the 1% commonly charged by banks. (H&CD Hearing, 9/12/02, p. 13.)

H. Ron Willman, from Torrance, lived in his house for 12 years and received a predatory loan without borrower benefit. His original mortgage had a variable interest rate of 7-8%. He refinanced his loan with a predatory lender in March of 2000 to pay off credit card debts. However, the interest rate was 12%, higher than his previous mortgage, of 7-8%. He found out that over 7.3% of the loan amount was in fees and over \$20,000 of his home equity was stripped away. He tried to go to their offices to cancel his loan, which was within the three-day recession period, but they kept him there for over two hours and talked him into keeping the loan. (H&CD Hearing, 9/12/02, p. 20, lines 22-26 and p. 21, lines 1-12.)