

Home-Equity Lender Settles Suits

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LESLIE MILLER, Associated Press Writer

BOSTON (AP) -- Customers of the nation's largest home-equity lender who are paying 13 percent interest or more will be able to get automatic interest rate reductions on their loans.

Associates First Capital Corp. agreed to the cuts following a lawsuit by housing advocates who claimed the company was preying on poor, unsophisticated borrowers with bad credit histories. The company would not say how many borrowers would be affected.

The Irving, Texas-based company, which has come under regulatory scrutiny, said Monday it has also agreed to commit \$100 million to a no-fee, no-down payment mortgage program run by Boston-based Neighborhood Assistance Corporation of America.

Bruce Marks, chief executive officer of the activist group, applauded the rate reduction program.

"This is going to revolutionize the subprime lending market," he said.

The subprime lending market serves customers with poor credit ratings. Marks said other companies that make loans to customers with less-than-pristine credit histories will be forced to follow suit, because Associates sets the industry standard.

But an analyst said the market may be too fragmented for that prediction to come true.

"Whether everyone else will follow, it's hard to judge. There's a lot of small brokers out there who do this, too, and they fall under the

radar screen of the activists," said Joel Gomberg, an analyst with William Blair & Company in Chicago.

Although Associates is the largest home equity lender, its market share is only about 4 percent. The company earned \$1.2 billion last year on \$9.7 billion in revenues.

"I don't know if it's a huge conciliation on the part of the company," said Gomberg. "They're trying to work with these groups who are making a lot of noise."

Thomas Theurkauf, an analyst with Keefe Bruyette & Woods Inc. in New York, called Associates a bellwether company that could change standards for the industry.

"It's a lead steer in the industry," he said. "It could trigger some changes."

Lending practices of the subprime industry have been under scrutiny from the U.S. Justice Department and the Federal Trade Commission. Neighborhood Assistance targeted the industry on a state level, helping 16 consumers file class-action suits Friday in California and Massachusetts against Associates.

The suits charged the company used aggressive tactics to convince existing customers to refinance with lower interest rates, only apply hefty financing fees that made monthly mortgage payments higher than before.

The interest rate reduction program, said Marks, eliminates the company's incentive to refinance. Interest rates will automatically go down by as much as 2.25 percentage points in three years for qualified borrowers who

have kept current with their payments.

"It makes good business sense for us," said David Sandor, Associates spokesman. "It helps us retain customers and improve credit quality."

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