

# Irving Lender to Allow Rate Cuts

## Associates First Capital Accused of Unfair Practices

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IRVING -- Associates First Capital Corp. said yesterday that it had agreed to allow some of its low- and moderate-income borrowers to earn interest-rate cuts on home-equity loans by making their monthly payments on time.

Announcement of the plan follows lawsuits filed last week by 16 consumers in Massachusetts and California, accusing Associates of unfair lending practices aimed at customers with little or poor credit histories in those states. Associates, based in Irving, is the nation's largest home-equity lender.

The Federal Trade Commission also is investigating the so-called subprime lenders, which make home mortgage, equity and other loans to higher-risk customers.

Bruce Marks, chief executive of the Boston-based Neighborhood Assistance Corporation of America, which helped file the consumer suits, said those cases will be dropped as a result of Associates' announcement yesterday.

But company spokesman David Sandor said Associates never saw the lawsuits and hasn't agreed to any legal settlements. The company denies allegations of unfair lending practices.

Instead of a legal settlement, he said, the company has joined with the Neighborhood Assistance Corp. to develop "a revolutionary loan program that will provide borrowers an opportunity to earn an automatic reduction in their interest rates on home-equity loans."

Additionally, he said, Associates has committed to a four-year effort to lend up to \$100 million under NACA's guidelines

for financing first-home mortgages or refinancing first-home mortgages at lower rates.

NACA said the current guidelines set fixed mortgage rates at about 6 percent and require no down payment, closing costs or other fees from the borrower.

That will bring NACA's program, financed by several commercial lenders, to more than \$3.8 billion in home mortgage commitments nationwide, Marks said. NACA has a new housing services branch in the Metroplex, he said.

Marks said the \$300 billion subprime mortgage industry, which has many competitors, has resorted to home-refinancing charges that often result in up to 5 to 10 percent increases in mortgage balances.

The suits, he said, alleged the company engaged in "flipping" -- charging extra-high interest rates and then asking customers to refinance, earning itself more fees that are rolled into the principal of each loan.

"Once you get in, you never get out," Marks said. "This deals with that straight between the eyes."

The agreement with Associates, he said, could prompt other subprime lenders to follow suit.

Sandor said the home-equity rate reduction program will allow qualified customers with loan rates of 13 percent or higher to earn rate reductions automatically for up to three years.

After the first year, he said, a 0.5 percentage point interest reduction will come if the customers make 12 consecutive on-time monthly payments.

The rate will be further reduced by 0.75 percentage point after the second year and 1 full percentage point after the third year, again as

rewards for making payments on time. That means paying within 30 days of the due date.

"It works for us, too, from a business standpoint, generating more customer retention and less cost to service accounts," Sandor said.

He said customers have to initiate the process with Associates First Capital and meet all the guidelines, which also include income level, condition of the property and whether the owner lives in the home.

"This groundbreaking program, a first in our industry, is another example of our creative approach to meeting customer needs," Associates Chairman and Chief Executive Keith W. Hughes said in a statement. Sandor said, "We hope our relationship with NACA will serve as a model for the rest of the industry." The rate-reduction program will begin July 1, and will apply to new borrowers and existing customers meeting the guidelines, he said.

Associates First Capital, founded in 1918, had about \$22.5 billion in outstanding home-equity loans at the end of 1998. That included nearly \$1 billion in home-equity loans originated in Texas last year.

NACA says it's a nonprofit agency and a leading community advocacy and housing services organization providing homebuyer workshops, one-on-one counseling, mortgage application assistance and other related services.