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Lender settles suit with new mortgage plan

By Ellen O'Brien, Globe Staff

One of the nation's largest home-equity lenders will announce today that it will lower annual interest rates for clients who make monthly payments on time, in a settlement that housing advocates hailed as a breakthrough in the tarnished world of subprime lending.

Associates First Capital Corp., also known as The Associates, faced with two class-action lawsuits filed Friday in Massachusetts and California, agreed to a new mortgage policy following a marathon weekend meeting with members of the Boston-based Neighborhood Assistance Corporation of America, according to those on both sides of the table.

"We came to a meeting of the minds," said Joseph Stroop, The Associates' spokesman, from the firm's headquarters in Irving, Texas. "We have made our living for 81 years listening to our clients, and our critics, and this makes sense."

Stroop said that officials plan to announce the new program, along with a \$100 million market-rate mortgage loan commitment to Neighborhood Assistance Corporation for low- and middle-income homebuyers, at today's annual shareholders' meeting.

In the program, which company officials called the first of its kind, each new loan would automatically be refinanced at a lower rate three times in its first three years. The rate would drop by 0.5 percent at the close of the first year, an additional 0.75 percent the following, and 1 percent the last. While the dollar amounts saved by consumers in the new program may not be enormous, specialists in lending say the deal comes at a crucial time, when subprime lenders have been increasingly criticized for preying on the financially vulnerable.

The business of providing loans at higher-than-average rates to people with less-than-respectable credit ratings has been beset by allegations, and some evidence, of deceptive sales tactics and hidden costs, with companies selling homeowners loans they cannot afford.

"The Associates' agreement is not a precipitous decline," said Ada Focer, former Massachusetts deputy commissioner of banks for housing and community investment. "Nevertheless, it represents a fundamental shift in the industry."

Subprime lending, Focer said, has enormous impact on cities and suburbs alike, with many vulnerable people forced into foreclosure.

In an internal exchange of company assets, The Associates absorbed Ford Consumer Finance in 1994. With the acquisition came Ford's reputation for taking advantage of vulnerable clients by selling them loans they could not afford. The subprime lending industry provides high-interest loans to homeowners plagued by credit problems or debt.

Bruce Marks, executive director of Neighborhood Assistance Corporation, true to his reputation for badgering banks and lenders with bad publicity, arranged to have some of the plaintiffs in the lawsuit fly from Massachusetts to Dallas Saturday to attend the Associates' annual shareholders' meeting. The plaintiffs allege that loans from the company bankrupted them, surprising them with "balloon payments" - enormous lump sums due halfway through the loan. They say that borrowers were told they could avoid the charge only if they refinanced at an even higher monthly rate.

Some borrowers also allege that The Associates kept them tied to their bad credit histories by failing

to report their positive payments to credit bureaus.

Stroop, The Associates' spokesman, said yesterday that the company halted the use of "balloon" payments four years ago.

"In the past, we haven't always agreed with NACA," Stroop said. "But I think the bottom line is that we both care about our clients."

As recently as Friday, a spokeswoman at The Associates ridiculed Neighborhood Assistance Corporation's plan to arrive at the annual company gathering, calling the plan a "stunt" and Marks a "showman." But yesterday, both sides congratulated the other for having smart business sense.

Last year, a nationwide class-action suit spearheaded by the Neighborhood Assistance Corporation against Ford Motor Co.'s consumer finance branch was settled for \$2 million. But a federal judge rejected the settlement, saying that clients would be better served through lawsuits in their own states, and Marks vowed to return to court.

That led to Friday's filings in California and Massachusetts on behalf of about two dozen plaintiffs, though about 2,000 Massachusetts borrowers would be affected.

The Associates' \$100 million loan commitment will be distributed to potential homeowners through market-rate mortgages without purchase or closing costs, Marks said.

Yesterday, Marks said the commitment for change from The Associates was what he had hoped for.

"It will absolutely restructure this \$300 billion industry of subprime lending," Marks said. "It's a significant victory."

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