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Associates First Offers Rate-Cut Plan To Low-Income Home-Equity Borrowers

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Associates First Capital Corp., the large Dallas consumer-finance company whose loans to low-income customers have come under regulatory scrutiny, said it would create an interest-rate reduction program for low-income home-equity borrowers, and it also pledged $100 million in loan commitments to a national affordable-housing group.

The company made the $100 million pledge to Neighborhood Assistance Corp. of America, a Boston-based housing-advocacy group, which has been critical of Associates and will administer the loan commitments over four years. The group, which has been attacking Associates as a "predatory" lender, offers low-interest-rate loans with no down payments or financing fees.

Conciliatory Signs

The move signals that the subprime lending industry, in which Associates is the leading player, may start striking a more conciliatory approach to its critics. Subprime lenders offer loans with high interest rates to clients with poor credit, often the poor and the elderly. The Federal Trade Commission and the U.S. Justice Department are investigating the industry, including Associates.

Associates also made the agreement two days after 16 consumers in Massachusetts and California - organized by Neighborhood Assistance Corp. – filed lawsuits against the company engaged in a practice known as "flipping." The plaintiffs, in suits filed in Suffolk County Superior Court in Boston and U.S. District Court in San Francisco, said Associates would charge high rates and then quickly ask to refinance, each time earning fat finance fees.

Associates General Counsel Chet Longennecker said its new programs for the poor had nothing to do with the suits but said they grew out of discussions with Bruce Marks, the neighborhood group's leader. Company officials, who had denied the charges in the lawsuits, also said they had agreed to settle the suits, which sought class-action status, for terms that weren't disclosed.

Mr. Marks said the mortgage-reduction program would "revolutionize subprime lending" because it would protect borrowers from the flipping practice. "In my wildest dreams, I couldn't imagine a bigger victory," Mr. Marks said. "We couldn't think of a better outcome."

Associates said it would offer the special "mortgage-reduction program" for moderate- to low-income home-equity loan customers. The company called the program the first in the industry. It will be offered to both current and future customers.

Rolling Back Rates

Under the program, these consumers would start with a 13% interest rate that would decline automatically each year if consumers make timely interest payments-falling as much as 2.25 percentage points by the third year. Associates said tens of thousands of consumers would be eligible for the program, but declined to specify income limits. Associates has half a million home-equity customers.

Mr. Longenecker said the company expected that the new program will cut back on delinquent loans, and win customer loyalty.

Last year, Associates was spun off from Ford Motor Co., where it was an extremely profitable unit. In 1998 the company earned $1.2 billion on $9.7 billion in revenues.

Mr. Longenecker said he didn't see the new programs have any immediate impact on financial results.

The deal comes as another victory for Mr. Marks, whose aggressive tactics have angered many banks. His group already has $3.7 billion in loan commitments, and has provided financing for 5,000 homes nationwide.