Opening Remarks
Senator Charles E. Grassley
Chairman, Senate Special Committee on Aging

Good afternoon and welcome to our hearing entitled: "Equity Predators: Stripping, Flipping and Packing Their Way to Profits." First, let me say welcome and thank you to each of our witnesses: one of whom is jeopardizing his future in the industry by being here, three who will relive some very painful situations and our panel of experts who have taken the time to share their expertise with us. Let me also say welcome and thank you to the other Members present here today and of course to members of the public.

Equity Predators - at first blush it sounds like a new horror movie targeted to bring "chills and thrills" to teenagers across America. Unfortunately, the topic that we are talking about today is a "horror." However, there are no chills and thrills and the target of these equity predators are not teenagers but anyone who has a good deal of equity in their home - especially unsuspecting senior citizens, senior citizens who are equity rich and cash poor.

What exactly am I talking about when I say that equity predators target folks who are equity rich and cash poor? I am talking about our mothers and fathers, our aunts and uncles who often live on a fixed income, oftentimes exist from check to check and dollar to dollar, and who put their blood, sweat and tears into buying a piece of the American dream - their own home.

This should not come as a surprise. In fact, it is estimated that more that 23 million American homeowners have no mortgage debt and that the average age of such a homeowner is 64 and a half years old. Indeed, for many senior homeowners, the equity in their homes represents their largest asset. In fact, estimates of their collective equity range from $600 billion to more than $1 trillion dollars. It is no wonder that these folks have become the "apple" of many a lending company's eye.

Before I get into a little bit more depth about the practices used by some lending companies to "rip off" our senior citizens, there is something that needs to be said clearly and unequivocally. Most subprime lending institutions operate in an appropriate, ethical, moral, compassionate and legal manner. They provide a vital service to those borrowers who may be unable to take advantage of traditional lending institutions because of such things as poor credit and insufficient income. These lending companies are providing thousands of seniors with needed cash - cash that is used to pay for everything ranging from medical bills to transportation needs.

Now let me turn to the matter at hand a little more directly. Equity Predators are in the "cheatin and swindlin" business. They make money by stripping, flipping and packing the loans they make to unsuspecting consumers, who are often trusting senior citizens with little knowledge about finance and the practices of lending institutions. You just heard me say a few terms that might have different meanings depending on what part of the country you're from. Those terms are stripping, flipping and packing. If you look right over there we have prepared a glossary of terms that will be useful as we discuss the practices used by some in this industry.

Another question is just how prevalent is this problem. I wish I had a statistically valid number for you but none exists and that is very unfortunate but there are few things that I can say. During the course of conducting the investigation for this hearing, it became apparent that often the victims of equity predators are rarely aware of the fact that they have been the subject of a scam. In fact, it has been

reported that home repair and equity fraud have "stripped" the value from the homes of about 100,000 unsuspecting people in 20 states. In addition, the sheer size of the home equity market is incredible and would naturally attract unworthy business people. Imagine - home equity loans jumped from $1 billion dollars in 1982 to $600 billion in 1996. Next, it is estimated that about 663,000 elderly households have lived in their homes for over 20 years, own their homes free of mortgage debt, have incomes of $30,000 or less and have equity of $100,000 or more. Even the experts we talked to all seem to agree on one thing - they are seeing more and more cases of predatory lending and as I said - who knows what we're not seeing. In fact, we learned that the State of California determined the problem of predatory lending practices was significant enough to merit a Fraud Unit within local district attorney's offices devoted solely to addressing this problem.

Today, we're going to hear from seven panelists. Three witnesses are going to talk about their very personal and painful experiences with lending institutions. While listening to these witnesses, please pay particular attention to each of their stories. One will explain how her family was scammed through a home repair scheme, one through the financing of a consumer item, and one by simply calling one of the 800 numbers advertising that the company sold "money." These witnesses all ended up in the same boat - just about losing their home - but the way it happened was tailored to their particular situation at the time. Then you are going to hear from a gentleman who worked in the lending business. He will give us the real scoop on how predatory lenders do what they do to unsuspecting homeowners and the crafty, systematic practices employed by some lending institutions to "bleed" the equity from the borrower's home. Thereafter, we will hear from a professor of law who will speak about some internal corporate documents and provide his opinion on some segments of a training tape used to train employees in the "ways" of lending. The Federal Trade Commission will speak about their most recent investigation into predatory lending practices and last, but not least, we will hear from a committed, experienced legal aid attorney who has devoted the last decade to helping unsuspecting borrowers on the verge of collapse.

Before we begin I want to quote a victim - a quote that in my mind kind of sums up what we are talking about today. She said the following:

THEY DID WHAT A MAN WITH A GUN IN A DARK ALLEY COULDN'T DO.

THEY STOLE MY HOUSE.