

TESTIMONY OF GAEL M. CARTER
before the Hearing of the
UNITED STATES SENATE SPECIAL COMMITTEE ON AGING
"Equity Predators: Stripping, Flipping
and Packing Their Way to Profits"
March 16, 1998

My name is Gael M. Carter. Thank you for inviting me to appear here today to share my experiences. Thank you also for your patience while I read my statement. I have asthma and blurred vision. It is hard for me to read things close up.

I am 55 years old. When my husband died in 1992, I was left with the house in which I have lived since 1963. It is in this home that I raised my four children, two step-children and a foster child. At the time of my husband's death, I had about \$150,000.00 in equity in my house. My house is the only thing of value that I own.

I have a ninth-grade education. I last worked in 1978 as a night cleaning lady in a movie theater. I had to quit working because of high blood pressure, liver trouble and other health problems. Now I get by primarily on Social Security payments.

Starting in 1994, I was taken advantage of by a financial services company. It all began when I bought a toy car as a gift for my son. I took out a small loan for about a thousand dollars to pay for it. It turned out that the loan was from a company that makes its business out of tricking people like me. Over the next year, they kept giving me advice on my finances and getting me to take out loans with them. Every time, they told me they were going to put my finances in order and consolidate all my bills, and that just wasn't true. By the end of January 1995, I owed them payments totaling \$328,322. I was scared to death I was going to lose my home.

After I bought the toy car, this company kept calling me all the time. They told me that they knew about the loan for the toy car and that they knew I owed some other bills. They kept calling and telling me that they could consolidate my bills and save me quite a bit of money per month. This woman from the company took an application for a home equity loan over the phone; later she came over to my house with all the papers for me to sign. She was leaning on the table and pushing papers at me fast, when I first heard the word "insurance". There was a \$100,000 life insurance policy included in the loan papers, even though I had never asked her for insurance. When I asked about the insurance, she told me I had to have it. She told me that it would pay off the loan and have something left over to raise my daughter if I died. As I came to find out later, she didn't tell me a lot about the insurance, including that I would be paying finance charges for the cost of the insurance over the entire 15 years of the loan, even though the insurance was only good for 10 years.

When the papers were signed, it turned out that this loan didn't pay off my bills. The company told me not to worry about this, and that after I had the loan for a few months, I could come back to them and "re-up" the loan for the extra money I needed for my bills. After this first loan, the company still kept calling me on the phone and sending me mail about borrowing more money, and so it was arranged that I would do a new loan the next month. The second time around, they again charged me for \$100,000 in life insurance and told me that if I died the money would go to my estate. Again, they told me I had to have the life insurance to get the loan. As with my prior loan, I told the woman at the company about my serious health problems. As it seemed to me that my health problems might present a big problem in the insurance ever paying off. The woman from the company didn't care about the health problems, though, and she went right ahead and checked all the boxes on the form to show that I didn't have any health problems. She said that she was a manager at the company and could take care of things so I shouldn't

worry. I was told that I wasn't going to be charged any points or fees for redoing the loan.

After the second home equity loan, I kept getting things in the mail from this company, as well as phone calls. It seemed like every time I opened the mailbox, there was something from them. They sent me these checks, telling me I was cleared for \$3,000 in credit or \$1,500 in credit, and all I had to do was cash the check. They were always telling me that I was a good customer and my credit was good with them. Finally, I cashed one of them to buy Christmas presents.

My third home equity refinance with this company started in late fall of 1994. Besides all the phone calls and mail from the company, I had been talking to the company's branch manager about trying to get the due date on the loan straightened out. In all of the phone calls with the company, the people from the company would act really friendly, asking about my kids and things like that. They always acted like they were family friends. This friendliness is one of the main reasons that I came to trust them so much. So, this woman from the company was telling me about how we could go about getting all my credit cards paid off finally. She said that to do that they would have to have a first mortgage on my house. This concerned me, because it would mean that I would have to pay off my existing mortgage of about \$50,000 at the very low interest rate of 6.77% and almost double the interest rate through the new loan with the company. I didn't think this was such a good idea, but the woman kept talking to me and assuring me that this was the best way to go because my total monthly payments would be lower. She never said anything about points on the loan. She said that I had to have the credit life insurance, though, on the loan. I eventually went along with her suggestion and she arranged for me to take out another loan in early 1995. This time around she had my daughter and son-in-law co-sign on the loan papers.

After she got me to sign the paperwork for this loan, I started noticing that some things were wrong. At a certain point I made my mind up to go to a lawyer to get help. I started trying to figure out all the paperwork and where all the money had gone. As a result, we got the company to re-do the loan and I got some of the money back that they had charged me for points. By the time of the third home equity loan for \$154,500 they had charged me \$17,848 in points, as I later found out.

I then spent the next year and one-half trying to get out from under this company. You see, I thought that a company that could lie to me as they had was capable of just about any kind of trickery. I was worried to death the whole time that the company was going to come after me somehow and take my house. With my health situation, I have enough worries on my mind anyway. I finally got some help from a regular lender to get me away from the company.

You see, I now know that the way this company gets you to take out all these loans and buy all the insurance and extras is that they tell you some lies and they just don't tell you anything at all about a lot of things. When it comes time to sign the loan papers, they just sail right through them. When you arrive at the closing, they've already prepared all the papers, with the life insurance and the points and extras added on. At the closing, they point at this and that in the papers but they don't explain really what any of it means. There's a whole lot of fine print in the papers that even now I just don't know what it means. At the loan closing, they don't give you any chance to figure it out. They don't want you to understand what's going on. And since they always act so nice and friendly, you come to trust them and rely on them to tell you all the important information about the loan.

What the company had told me over the phone about what they were doing turned out to be a lot different from what they did, as I found out later. They told me that they weren't going to charge me any points on the loans, but they did -- every time. They told me that I would have a fixed interest rate; I later found out that on the one loan it was variable. Later, I found out that the \$100,000 credit life insurance that they made me buy with every loan decreases over the length of the loan and doesn't even cover the whole length of the loan. Also, because of my health problems, the company probably

wouldn't pay anything on the insurance anyway. The insurance was all a scam so that the company could make money off me.

And that's not all. One of the pay-off checks on the third equity loan was supposed to go to the friend who held my \$50K mortgage. I knew I hadn't signed the check for her so I called her up to let her know that. She told me that the check had already been signed. In fact, they forged my name on nine checks that were supposed to be pay-offs to my creditors from the third equity loan. They also forged my initials on a health questionnaire for the life insurance, saying I didn't have any health problems when they knew better.

As things started to get a little clearer for me, I was talking to my children and telling them about how I had been taken by this company and, I found out that my daughter-in-law had also been a victim of this same company.

I felt that if they did this to me and my daughter-in-law, they did this to a lot of other people and they should be called to account for it. I am now a plaintiff in a class action lawsuit against the company that did these things to me. I hope that as a plaintiff in the class action I can make a difference by getting justice for myself and all the other people who were hurt by that company. The class action has given me the chance, which I wouldn't have on my own, to do something about this problem. I also hope that by appearing here today I can help put an end to this kind of fraud.