



**Testimony before the  
Subcommittees on Housing and Community Opportunity  
and Financial Institutions and Consumer Credit**

**on**

**“Legislative Solutions to Abusive Mortgage Lending Practices”**

**Submitted by  
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BorrowSmart Public Education Foundation**

**May 24, 2005**

My name is Lisa Bouldin-Carter and as National Executive Director of BorrowSmart Public Education Foundation, I deeply appreciate Chairman Ney and Chairman Bachus’ attention to the critical issue of financial literacy. A financially informed consumer can provide the first defense against abusive lending practices. Having worked as a credit counselor and having run a HUD approved, non-profit housing counseling agency for more than twenty years, I have seen first hand the horrors of predatory lending and the benefits of financial education. I applaud the Subcommittees’ efforts to develop legislation that would strengthen consumer protections against abusive lending practices and promote financial literacy.

My career has run the full gamut of providing financial literacy education for homeowners and those aspiring to home ownership. I have provided housing counseling from “thought to acquisition,” offering down payment assistance, foreclosure prevention, and counseling for senior citizens considering reverse mortgages. It is exciting and personally rewarding to incorporate my knowledge of the home buying and home ownership process into financial education programs directed to consumers who may be vulnerable to predatory lending practices.

Consumers, especially those with less than perfect credit, often lack the financial savvy to understand their mortgage options whether they are buying a home or refinancing a mortgage. Fortunately, there are many programs designed to help the first-time homebuyer acquire a mortgage, but unfortunately there was a dearth of financial education targeted to homeowners seeking to tap into their home equity. Recognizing how vital it is for homeowners to understand the potential pitfalls and the potential benefits of refinancing, the

National Home Equity Mortgage Association (“NHEMA”) filled this vacuum of information by creating the BorrowSmart Public Education Foundation in 2002 (“BorrowSmart”). [Visit our website at [www.borrowsmart.org](http://www.borrowsmart.org).]

### The BorrowSmart Financial Education Program

As a 501(c) 3 non-profit headquartered in Cincinnati, Ohio, BorrowSmart has created unique financial education programs that help both consumers and credit counselors understand the risks, rights, and responsibilities involved in borrowing against the equity in one’s home. Our goal is to educate consumers on how to wisely use their most important asset – their homes – to obtain affordable credit and meet their personal financial goals.

BorrowSmart programs have been designed to focus particularly on consumers with impaired credit, as many simply do not understand the basics of mortgage finance, making them vulnerable to predatory lending practices. We believe that the implementation of BorrowSmart across America would reduce such practices by unscrupulous lenders and brokers.

Like most non-profits, we must conserve our limited resources and have found that delivering financial counseling works best when partnering with organizations that work at the grassroots level. Thus, BorrowSmart is geared to “training the trainer,” which means we partner with a community- or faith-based organization and teach them how to teach their constituencies on smart money management, including borrowing from their home equity. Generally, the program is taught in a half or full-day seminar and is underwritten by one of the many responsible lenders or organizations that support the BorrowSmart Public Education Foundation.

Our training focuses on money management skill development, making good budgeting decisions, how to work with lenders, understanding the closing process, how to shop for the best loan, and spotting red flags for possible fraud or inappropriate loan practices or terms. We also address what to do when one’s financial situation changes due to unforeseen circumstances and the mortgage is delinquent or the homeowner is facing foreclosure.

Among the many facets of financial literacy, understanding one’s credit score and its implications on borrowing and home ownership is one of the neglected aspects of financial knowledge for most consumers. Giving borrowers a firm grasp of their rights and responsibilities while enhancing their financial knowledge and skills is an important aspect of BorrowSmart’s financial literacy education. In addition to understanding basic fair lending principles, borrowers must be able to recognize the warning signs of abusive lending practices, which may be technically legal but sometimes applied in a way not fully understood by the borrower. Thus, we provide the knowledge, skills, and tools home equity borrowers need to “borrow smart.”

All of our programs, services, and materials are provided at no charge to help current and prospective home equity borrowers. We have conducted seminars and workshops from coast

to coast assisting consumers in large cities as well as smaller communities.<sup>1</sup> Moreover, our materials are available in both English and Spanish.

### Reaching Consumers through Faith-based and Community Initiatives

We have expanded and strengthened our outreach to a wide variety of lending organizations, financial institutions, and regulators, but it is through our partnerships with community based and faith based programs where we have been able to reach the greatest numbers of consumers in need of financial literacy. For example, BorrowSmart premiered its Foreclosure Training in California for housing counselors and homeowners collaborating with FAME Renaissance and SCANPH.

The First African Methodist Episcopal Church of Los Angeles (FAME) is the oldest congregation in Los Angeles. The ministry reaches beyond the walls of the church with initiatives to address the community's most pressing needs, including health, substance abuse, homelessness, emergency food and clothing, housing, tutoring, entrepreneurial training, and employment services.

The Southern California Association of Non-Profit Housing (SCANPH) is a non-profit membership organization dedicated to the development, preservation and management of permanently affordable housing for low-income people enabling them to educate homeowners in Foreclosure Prevention and Homeownership Retention.

We are collaborating with the Urban League and the City of Orlando to offer foreclosure prevention and homeownership training to housing professionals and financial institutions in the Greater Orlando area. This is an initiative that we hope to expand to include other Urban League affiliates across the country.

In all the various communities where BorrowSmart training sessions have been held, we always encouraged borrowers to seek counseling prior to purchasing a home and again if they are refinancing one so that they do not unwittingly make unwise decisions regarding home ownership. We have found that the simpler the language used in loan documents the better the understanding of the borrower. But they need so much more than clear disclosures and plain language. Borrowers need to understand the terms of the mortgage and the options that can help them obtain a more affordable loan.

Too often unsophisticated borrowers focus on the size of their monthly payment and fail to take into account the risks associated with borrowing against equity. For example, an adjustable rate mortgage note might offer an initially low monthly payment, but will the homeowner be in the financial position to pay the mortgage when the rate adjusts? This is not to say that a borrower is necessarily ill-advised to consider a loan with an adjustable rate, anymore than one with an early prepayment penalty or discount points. Such features can provide a borrower with the ability to obtain a home loan with a significantly more affordable monthly payment – something of major importance to probably all of us. Of

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<sup>1</sup> See attachment A for a schedule of BorrowSmart programs.

course, these tools to provide greater flexibility for borrowers are not inherently good or bad – they must be considered in the context of a borrower’s particular circumstances and goals.

Prepayment penalties, for example, can be an excellent way for homeowners to make a mortgage payment more affordable, but they must understand if they pay off the loan before the prepayment penalty period expires, then it can be quite costly. Consumers need to look at their own circumstances and also ask what the mortgage payment would be with or without a prepayment penalty. Most non-prime lenders reduce the interest rate by 1% if the mortgage has a two or three-year prepayment fee, thereby reducing borrowing costs substantially. However, if the homeowner thinks he is likely to sell or refinance his loan while the prepayment limitations apply, then the lower monthly payment may not be justifiable. Borrowers must watch out, too, for excessively long prepayment periods, such as five years.

Borrowers can also make their loan payment more affordable by buying down their interest rate through discount points, but the borrower must determine whether the cost of the rate reduction is worth it. For example, if the cost of the discount point can be recouped within a few years, then it may be a good choice for the borrower. All of our financial literacy education is directed toward empowering consumers to make the right decisions for themselves and their families.

Each participant in a BorrowSmart program uses financial planning worksheets that enable families to do cost comparisons in considering the affordability of a loan product. We teach financial counselors to encourage consumers to work through their own financial situations and consider at least three lenders and compare products to assure a loan fits into their budget and needs. Based on the outcome a consumer is looking for, they are guided to the best loan product for their financial situation. Given the plethora of loan products and options, it is critical borrowers understand that they have many choices, but they must shop for the best deal. This is one example of how financial literacy can encourage non-prime borrowers to make informed choices.

### Financial Literacy: A Life-Long Learning Experience

Providing financial literacy education is opening a door to life-long learning so that consumers attending the home ownership classes gain information that can be used in other aspects of their lives. Financial literacy programs work best when families looking to purchase or refinance their homes seek assistance from housing counseling agencies. These families make a conscious choice to become financially empowered, and they are most likely to turn to a trusted advisor like their church or local community group.

Many homeowners are first generation purchasers and are looking for someone to provide guidance. These families seek to understand the financial process to assure their success and increase their knowledge as they enter into a purchasing decision previously unknown to them. They become engaged and are willing participants in housing counseling classes.

In cases where housing counseling is forced upon a family, they often occupy the required seat without participating in class discussions or integrating the knowledge they could have

obtained into their financial decisions. Some simply have the mindset that counseling is a waste of time. I have witnessed unwilling adult students disrupt the class to the detriment of those who are there to learn. Based on my years of first-hand experience counseling consumers, I believe that borrowers, regardless of the reason they are seeking a loan, will make wiser decisions if they choose to participate in financial literacy classes rather than if they are mandated. However, I believe that lenders and brokers should be required to encourage them to seek counseling from a qualified credit or housing advisor.

Obtaining financial literacy education helps level the playing field so families will understand the impact of the choices they make based on their credit and the loan product they select. Armed with knowledge, they can steer clear of inappropriate loan terms and watch for predatory practices and abusive terms. They can compare loan products to find not only the most affordable loan, but also the loan that best fits their personal circumstances.

### HUD's Role in Expanding Financial Literacy

While BorrowSmart and other financial literacy programs are helping thousands of people, more needs to be done. I applaud Rep. David Scott for his unwavering mission to make housing counseling more widely available and to let people know that qualified credit counselors are just a toll-free phone call or web-site visit away.

I commend Chairman Ney and Rep. Kanjorski for incorporating Rep. Scott's recommendations and including a housing counseling title in their bill, HR 1295, The Responsible Lending Act of 2005. This title would establish, and very importantly fund with \$75 million annually, an Office of Housing Counseling at the Department of Housing and Urban Development. Having served as Executive Director of a HUD-approved credit counseling agency for 15 years, I can attest that the federal government can and needs to centralize its housing counseling assistance and devote more resources to counseling agencies across America. Unifying its far-flung counseling regulations, requirements, standards, and programs into one office – whether it be located within HUD or another agency -- will empower the federal government to be more effective.

I am especially impressed with H.R. 1295's recognition that homeownership counseling spans the entire homeownership process, including the decision to purchase a home, the selection and purchase of a home, issues arising during or affecting the period of ownership of a home (including refinancing, default, foreclosure, and other financial decisions), and the sale or other disposition of the home. What is also exciting is the certification of software programs that consumers can use with confidence to evaluate different mortgage loan proposals. BorrowSmart has developed worksheets to help borrowers make the right decision, but a widely available low cost or free computer program could help millions of prospective and current homeowners.

An Office of Housing Counseling could also centralize information on lending and education "best practices" by providing a central clearinghouse for information. In our own effort to promote financial literacy, BorrowSmart has formed alliances with many community and faith-based initiatives through national workshops and the creation of education materials for

advocates and consumers. We would all welcome the opportunity to work with the Office of Housing Counseling and its Advisory Committee.

### Strengthening Communities Through Financial Literacy

All housing counseling must have perceived value for all parties involved in the transaction. Financial literacy programs must be valued by the community so they will provide services for families seeking home ownership and equity loans. These financial literacy programs, which are held in counseling agencies, churches and community facilities, have the ability to change lives and contribute to the stabilization and growth of neighborhoods. Lenders, foundations, and the government should see this as a winning solution so they will fund financial literacy programs, and consumers see financial literacy education as part of the process of ensuring success in home ownership and affordable equity borrowing.

In closing, let me emphasize that financial literacy is a tool that strengthens families. Children who connect to communities because they are in a home are more likely to stay in school. Homeownership creates stronger tax bases to support hospitals, schools and other community services that are important in connecting and sustaining neighborhoods. The very basis of our society is to achieve the “American Dream” of home ownership and become involved citizens and community participants.

With housing counseling and financial literacy programs like those provided by BorrowSmart, we can reduce the amount of foreclosures, community decay and blighted neighborhoods. And just as importantly, homeownership enables individuals to create, preserve, and increase wealth for themselves and their families. With financial literacy we can change lives! We live in a society where thinking outside the box challenges financial institutions to move outside their preconceived notions of who can afford a home to create a new generation of consumers who are educated on how to manage money and become homeowners. We can create a learning environment for families so they have the ability to choose a financial product – including making an informed choice about a home equity loan – that fits their needs.

BorrowSmart commends the Committee for focusing attention on the need for financial literacy education and creating solutions to eliminate abusive lending practices. We are passionate in our commitment to provide financial literacy education nationally and help consumers make better informed home purchasing and ownership decisions. We hope to have the opportunity to work with you to further financial literacy for all Americans regardless of social or economic status.

Thank you very much.

## **ATTACHMENT A**

### **BorrowSmart Training**

“BorrowSmart’s goal in conducting training for housing professionals is to enable them to update their skills in a small, interactive classroom setting. We want the professionals homeowners go to for answers to their housing questions to have the latest information available in order to educate consumers on the home equity borrowing process. We have found that the best relationship between homeowners and financial institutions exists when the consumer makes informed choices.

BorrowSmart training has been conducted in Cincinnati, Indianapolis, Denver, Dallas, Springfield, Ohio, New York City, Miami, Los Angeles, Chicago, Brooklyn, Wenatchee, Washington, Wilmington, Delaware, New Orleans, Spokane, Washington, Atlanta, Washington, D. C. and Laredo, Texas. Currently on the calendar are sessions in: Cleveland, Philadelphia, Charlotte, N. C., Orlando, FL, Jackson, MS, San Diego and Irvine, California.

### **National Collaborations**

As more African American, Hispanic and other minority families purchase their first homes, lenders must be more creative and flexible in developing products to serve these expanding markets. BorrowSmart uses interactive training workshops to enable housing counselors to better assist their clients with the often-challenging prospects of homeownership. A number of dynamics affect homeownership. We need to be absolutely certain that we are educating consumers on the breadth of their responsibilities in protecting their investment.

We have collaborated with nationally recognized organizations like the City of Orlando, the NAACP, Urban League, WOW (With Ownership Wealth), The Southern California Association of Non-Profit Housing, St. John Missionary Baptist Church, the Fifth District AME Conference, The Chicago Housing Expo, the Louisiana Legislative Black Caucus, and the First African Methodist Episcopal Church of Los Angeles (FAME).

ATTACHMENT B

**BORROWSMART PUBLIC EDUCATION FOUNDATION  
2004 PROGRESS REPORT**

**[WWW.BORROWSMART.ORG](http://WWW.BORROWSMART.ORG)**

1,197,971	Hits to entire site
132,858	Pages viewed
52,504	Visitors sessions
3,979	Average per day
00:09:10	Average visitor session length

BorrowSmart's Web site is designed as a resource for consumers and a tool for counselors. It is organized into four broad sections, each of which addresses a specific stage in the borrowing process. It also includes Links and other sources of additional information. (Website is currently being updated.)

**[BORROWSMART CONSUMER EDUCATION KITS](#)**

7,332	Education Kits distributed to counselors and consumers
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BorrowSmart makes free kits available to counselors to use with their clients. These kits include: budgeting worksheet to calculate monthly loan payments, questionnaire to help consumers decide whether a home equity loan is right for them; worksheet comparing terms offered; a fact sheet on what to consider when borrowing against home equity; and a pamphlet providing an overview of the home equity process.

**[CONTACT BETWEEN BORROWSMART PARTNERS AND NON PROFITS](#)**

655	Non Profits trained in 2004
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BorrowSmart is built on partnerships. The Foundation works to bring counselors and partners in a community together to support consumer education over the long term. Counselors benefit by strengthening contacts with lenders – contacts that can be critical when it comes time for a loan workout pan. Partners benefit by building a strong, well-educated customer base and reducing the risk of default.

**[SPECIAL EVENTS](#)**

- Expanded the national education materials through our Foreclosure Prevention initiative to help preserve home equity and ownership.
- Established first National Media Partnership with Black Enterprise magazine.
- Partnered with Congressional member in three states on home equity lending forums and platforms.
- Launched Spanish version of BorrowSmart materials.
- Held first National Partner Training in Sarasota, Florida



**ATTACHMENT C**

**BorrowSmart Lender Partners**

*(As of May 15, 2005)*

Accredited Home Lenders, Inc.  
Budget Finance Company  
Centex Home Equity  
CitiFinancial Mortgage  
Countrywide  
Delta Funding Corporation  
Equifirst Corporation  
Express Financial Services, Inc.  
First American Real Estate Information Services, Inc.  
First Franklin  
HSBC – North America  
Lenders Direct Capital Corporation  
National City Warehouse Resources  
New Century Financial Corporation  
Oak Street Mortgage  
Option One Mortgage Corporation  
Popular Financial Services Equity One Inc.  
Saxon Mortgage Inc.  
The Mortgage Outlet  
WACHOVIA

## ATTACHMENT D



### **LISA BOULDIN-CARTER NATIONAL EXECUTIVE DIRECTOR BORROWSMART PUBLIC EDUCATION FOUNDATION**

Lisa Bouldin-Carter is the first National Executive Director of the BorrowSmart Public Education Foundation. She is deeply involved with national issues concerning home ownership and consumers accessing the equity in their homes to finance personal or professional aspirations. Bouldin-Carter helps set the public policy housing agenda in collaboration with banking and lending institutions across the United States. In this national leadership position, she has a major impact on how the industry educates homeowners about accessing the equity in their homes.

Bouldin-Carter leads the Cincinnati-based national Foundation, which works through credit and housing counselors nationwide to educate homeowners about all aspects of home equity borrowing – budgeting, assessing financial need, etc. Her life-long advocacy for home ownership and her unwavering commitment and support of women and their families contributed to her selection and successful rise to a national leadership position. Since her appointment in 2003, Bouldin-Carter has worked to assure families are financially literate about using the equity in their homes. She is focused on closing the inequities that exist with older homeowners, African Americans and other communities of color and lower income individuals and families.

She is actively engaged in a multi-million dollar campaign to raise dollars to fund BorrowSmart's programming and educational materials. Bouldin-Carter is setting a new strategic direction for her organization that includes increasing BorrowSmart's profile nationally.

#### **Director, Greater Cincinnati Mortgage Counseling Services**

Prior to her appointment as National Executive Director of BorrowSmart, Bouldin-Carter served GCMCS for 14 years. Her community initiatives resulted in 2,000 new homeowners. She has a long-standing commitment to first generation low-to-moderate income and single head-of-household homeownership.

#### **Community Involvement**

Bouldin-Carter's passion is to help homeowners and first-time homeowners educate themselves so they are financially literate and economically sound. She has conducted housing and accessing home equity panel discussions and seminars for the Congressional Black Caucus and the National Housing Council. She is an alumna of the Greater Cincinnati Chamber of Commerce's Leadership Cincinnati Program, the Urban League of Greater Cincinnati Leadership Development Program and acknowledged as a 2005 Who's Who in Black Cincinnati.

#### **Education**

Educated at Central State University and the University of Akron, Bouldin-Carter has received awards recognizing her many contributions, including the Excellence in Training Award from the National Housing Council, NAACP Wright Overstreet Award, recipient of the Delta Sigma Theta 2004 Education Development award and received an Applause! ImageMakers nomination. She serves on the Greater Cincinnati Northern Kentucky African American Chamber of Commerce Board, the NAACP – Cincinnati Chapter Housing Committee and the Greater Cincinnati Chamber of Commerce Leadership Cincinnati Housing Committee.

#### **Personal**

Bouldin-Carter is the proud parent of two adult children, Brooke and Brandon. Her children are a reflection of her commitment and involvement in the global community. She has instilled in them the need to give back and share their talents with those who are less fortunate. Brooke is pursuing a MSW at the University of Cincinnati and Brandon is completing a B. S. in Education at Florida A&M University.

## YOUR MONTHLY LOAN PAYMENT: HOW MUCH CAN YOU AFFORD?

### Monthly Income

Salary .....	\$
Other (Social Security, child support, etc.) .....	\$
TOTAL INCOME (add all monthly income) .....	\$

### Monthly Income

Mortgage .....	\$
Food .....	\$
Electric bill .....	\$
Gas bill .....	\$
Heating oil bill .....	\$
Water bill .....	\$
Insurance (car, house, life) .....	\$
Car payment .....	\$
Credit card payments* .....	\$
Child care .....	\$
Clothing .....	\$
School/work supplies .....	\$
Transportation (gas, bus fare, etc.) .....	\$
Tuition .....	\$
Savings* .....	\$
Phone bill .....	\$
Other bills (cable, internet access, etc.) .....	\$
Medical expenses .....	\$
Alimony/child support .....	\$
Entertainment (movies, restaurants, video rentals, etc.) .....	\$
TOTAL EXPENSES (add all monthly expenses) .....	\$

TOTAL INCOME \$ _____ - TOTAL EXPENSES \$ _____ = \$ _____
This is the <b>BIGGEST</b> home equity loan payment you can afford.

*If your TOTAL EXPENSES are bigger than your TOTAL INCOME, a home equity loan probably isn't right for you. Instead, concentrate on cutting your spending and reducing the debt you already have.*

*\*If you aren't putting money aside for savings each month, or if you can only afford to make the minimum payments on your credit cards, you should avoid taking on more debt.*

## LOAN SHOPPING: COMPARE TERMS

	Lender Name	Lender Name	Lender Name
Number of points you must pay .....			
Dollar value of points .....			
Loan origination or underwriting fee .....			
Total expected closing costs .....			
Cost of Private Mortgage Insurance .....			
Cost of credit life insurance .....			
Total amount of loan fees .....			
Annual percentage rate (APR) on loan .....			
Is the rate fixed or adjustable? .....			
If adjustable, how much can rate increase? .....			
Total monthly loan payment .....			
Length of the loan period (years) .....			
Total interest paid over the life of the loan .....			
Total amount paid over the life of the loan .....			
Is there a prepayment penalty? .....			
What would your APR be without the penalty?			
How much are you saving every month by agreeing to the penalty? .....			
Is there a balloon payment? .....			
How large is it? .....			
When is it due? .....			