

Press Releases

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Responsible Sub-Prime Lending Part of Solution to Predatory Practices: Seidman Says

SAN FRANCISCO, Calif., April 17, 2000 - Asserting there is a difference between sub-prime and predatory lending, Director Ellen Seidman of the Office of Thrift Supervision (OTS) said today, responsible sub-prime lending "in my mind, is the most effective antidote" to predatory lending.

In a speech to the Interagency Conference on CRA here, she said, "Insured depository institutions that provide responsible competitive credit alternatives, including prime loans, to the market targeted by predatory lenders can drive those predatory lenders out. To make certain of this, however, regulators need to be clear about what distinguishes responsible risk-based pricing from predatory lending."

Responsible credit alternatives, she said, come in many forms that embrace credit enhancement strategies, including pre- and post-purchase housing counseling, as well as risk-based pricing strategies. Flexible terms and conditions can open up options that are unavailable under traditional product specifications.

Addressing an audience that included community groups active in seeking ways to enhance credit availability to underserved communities, she said the first step to solving the puzzle of responsible sub-prime lending "is to realize the sub-prime market does not require you to become a sub-prime lender."

Many served by the sub-prime market are creditworthy borrowers "who are simply stuck with sub-prime loans or sub-prime lenders because they live in neighborhoods that have too few credit or banking opportunities. "More than 20 years after CRA was enacted, we still have communities that are not adequately served by insured depository institutions," Ms. Seidman declared.

Two primary reasons explain this situation - the perception of conventional lenders that the risks of lending in certain communities are unacceptable and their belief that there are too few business opportunities in those markets. But, she added, many retailers are finding that many

markets have been mistakenly undervalued and are rediscovering profitable markets in both inner-city neighborhoods and in similar markets in close-in suburbs.

There is an untapped customer base in underserved communities across the nation, including immigrant and native-born American communities whose residents "newly need the range of services mainstream financial institutions provide. Millions of unbanked or non-traditionally banked Americans want and need the quality of financial services you and I take for granted."

Moreover, she emphasized, traditional financial institutions should not concede these markets to the high margin, sub-prime specialists. These market are full of creditworthy borrowers and profitable depositors and users of other financial services, and lenders must develop ways to effectively market to these communities. Lenders should work with community groups or knowledgeable marketing consultants about reaching these new customers. "Traditional institutions may well find a gold mine, and will almost certainly find good new business," she said.

"We at OTS are encouraging the institutions we regulate to look hard at their changing marketplace. We are asking them to think about their future strategically and figure out who their customers will be, what products and services they will want, and how those financial service needs can be met. It may be that thrifts, or banks, can provide these services directly. Or the best way may be through strategic alliances, agency relationships, or as part of a larger corporate family."

The regulator's role is to make certain the institution is operating safely and soundly and it considers its business options and deliberates knowledgeably about the choices presented. She also noted that OTS has launched a full review of its mortgage lending regulations and is seeking public input on a variety of issues related to sub-prime and predatory lending and on approaches it might take to curb egregious lending practices.

View Director Seidman's Speech Puzzling Through: Approaching Alternative Credit Responsibly (<http://www.occ.gov/static/news-issuances/ots/press-releases/ots-pr-2000-40a.pdf>) before the Interagency Conference on CRA, San Francisco, CA.

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The Office of Thrift Supervision (OTS), an office of the U.S. Treasury, regulates and supervises the nation's thrift industry. OTS's mission is to ensure the safety and soundness of thrift institutions and to support their role as home mortgage lenders and providers of other community credit and financial services. For copies of news releases or other documents visit the OTS web page at www.ots.treas.gov.