Testimony of Ronald J. Pugliese
Chairman, New England Financial Services Association
Before the Massachusetts Division of Banks
Public Hearing September 19, 2000
CMR 269 32.00 High Cost Mortgage Loans
September 19, 2000

Thank you Commissioner. My name is Ron Pugliese. I am the governmental affairs representative for the New England region for Household International and I serve as chairman of the New England Financial Services Association. Before I begin my testimony, I want you to know that NEFSA's President Jim Demers sends his regrets that he cannot be here today because he is having dental surgery but he will be testifying at one of the remaining two hearings on this proposed regulation. I appreciate having the opportunity to testify before you today on an issue that has recently attracted attention and interest in numerous states, that being predatory lending.

My company and the members of the New England Financial Services Association are committed to working with you to come up with a regulation that addresses this issue in a way that ensures that legitimate lenders and legitimate non-prime borrowers will continue to have capital available without restrictions that might drive up the cost of credit here in the Commonwealth.

We applaud your efforts to protect consumers from lenders who engage in abusive lending practices. We also appreciate comments you have made in the past at both state legislative hearings and at the federal level about the need to proceed in a way that promotes a balanced approach in order to avoid unintended consequences of eliminating consumers' access to the very credit or services they need to improve their economic situations. Unlike some discussions that have occurred, we know you understand and you have drawn a clear distinction between non-prime lenders and predatory lenders. Legitimate non-prime lenders play a very significant role in making credit available to consumers who are not served by the traditional banking market. Predatory lenders are just the opposite. They operate in a manner that consumers, regulators and even the non-prime lenders find reprehensible.

Having said all of that, let me address a few specific points in the proposed regulation. As you know from NEFSA's testimony earlier this year on legislation that was proposed on this topic, the members of the New England Financial Services Association have a concern with the rate levels that would trigger the provisions of this regulation. The proposed regulation would establish triggers of eight percentage points above the Treasury yield on first mortgage loans and nine percentage points above the Treasury yield on junior mortgage loans. At federal hearings and in other states, time and time again we have heard legitimate non-prime lenders say they will not make loans above the trigger rates. In order to comply with those triggers, they will cease making loans to higher risk customers who fall in those categories. That could very well put many non-prime borrowers in a bind to find a lender who will finance them. And with less lending optional available, the effect can only mean higher costs for the higher risk borrowers. We want to strongly encourage you to consider keeping the triggers at ten percentage points above the Treasury rate. We believe this level will address the concerns I have raised while ensuring that protections are in place which would address the abuses that have occurred in this state-- like to two companies your Division took action against a couple of years ago.

The other area I want to touch upon is the provision relating to credit insurance. I know there are people here who are experts in this area and will testify in greater depth than me but I want to emphasize that credit insurance for many non-prime borrowers is an important protection that they desire because they do not have alternative insurance protection. The purchase of credit insurance is completely voluntary. Without the ability for those who desire this coverage it to finance the premiums, the outcome will in essence make these products no longer available and we think that is a bad idea. We wholeheartly support the laws to prevent packing. We strongly support provisions to ensure that these products are completely voluntary. But we think it is a terrible mistake to set provisions that take this product away from those who might desire and need it.

I am sure Jim Demers has additional issues he will want to discuss with you but I wanted to just bring to your attention the two that I believe are very important. Thank you for bearing with me through my testimony. And as I said at the beginning, all of us in the New England Financial Services Association want to work with you to come up with a good workable regulation.