Fleet tangled in scandal that victimized poor homeowners

By Rob Wells
Associated Press

ATLANTA — Christine Hill calmly recounts three years of personal bankruptcy, foreclosure and eviction. It began with a leaky roof.

In 1989 Mrs. Hill and husband Robert decided to finance home repairs by borrowing, using the house they'd owned for six years as collateral. The lender charged interest that made double-digit pawnshop rates look like bargains. The Hills couldn't make the payments.

"I hated to lose the home. But I figured if it was God's will, I would get something else," Mrs. Hill said. "It hurt, but I tried not to let it worry me."

Like approximately 20,000 borrowers in Georgia, many of them low-income blacks, the Hills became pawns in a lending practice that their attorneys say is a mix of bigotry, desperation and naivete about a borrower's basic rights.

Similar schemes are victimizing minority homeowners elsewhere, from low-income Hispanics in Arizona to inner-city residents of Massachusetts, Illinois, and Alabama.

For the most part, the lenders are small and unregulated mortgage companies that are the choice for low-income borrowers considere too poor or financially unstable qualify for a bank loan.

"This is a system of segregation really. We don't have separate water fountains, but we have separate lending institutions," said Howard Rothbloom, a Marietta, Ga., attorney who represents some homeowners.

At the center of this particular story, however, is one of the nation's largest and most reputable banking companies: Fleet Financial Group, based hundreds of miles to the north in Providence, R.I.

It owns Fleet Finance Inc. of Atlanta, which operates in 23 states. The subsidiary faces six lawsuits from borrowers in Georgia that collectively accuse it of racial discrimination, loansharking, fraud, abusive collection practices, as well as violations of the federal Fair Housing and Truth in Lending acts.

Fleet Finance denies the charges, saying it was simply the purchaser of loans that other mortgage companies had made in the poorer sections of Atlanta and Augusta.

David Scruggs, Fleet Finance executive vice president, said it investigated complaints of abuse and has stopped buying loans from any companies. In addition, Fleet Finance has pledged $30 million to refinance "burdensome" loans that homeowners can't afford.

Borrowers who've been handed foreclosure notices or lost their homes tell a different story.

In the Hills' case, Modern Home Products Co., a contractor, agreed to fix their roof and spruce up their kitchen in September 1989. The Hills lacked enough money to pay so Modern Home Improvement referred them to Home Equity Centers Inc., a Marietta, Ga., mortgage company.

Hill, a trucker with an 11th grade education, said the loan was the second time he'd ever borrowed money.

The repair cost $5,559, but the mortgage company added the balance of the original mortgage, tax bills and other fees to bring the principal amount to $19,129. When the annual interest rate of 23.37 percent was figured in, the Hills' total cost was $69,167, court papers show.

Home Equity later sold the loan to Fleet Finance.

The Hills' attorney, William J. Brennan Jr. of the Atlanta Legal Aid Society, says the case fits a general pattern nationwide of home improvement contractors and mortgage companies targeting unsophisticated borrowers who have accrued substantial equity in their homes.

"They're strip mining the equity out of these houses," Brennan said.

After signing the loan papers, Hill fell ill to diabetes and lost his job. The family was unable to make the $384.43 monthly payment.

Mrs. Hill, 56, needs a cane when cold weather strikes at her arthritic knees. Their son Ron, 26, has a learning disability and hasn't held a steady job, Mrs. Hill said.

The Hills said Fleet wouldn't help them restructure their payments. To make matters worse, the home repairs were shoddy, they said.

"I tried to talk to them once or twice and could never get anything worked out with them," Hill said. "They were hard people to work with."

By September 1990, the Hills sought personal bankruptcy protection. A year later, they lost their house at a foreclosure auction. Eviction followed.

With Hill back at work now, the family is renting a house but paying double their old mortgage payment. The increased expense prevents them from affording what Mrs. Hill calls the "little small things."

"I'm not able to do dental work at the present," she said. "My husband, he's not been able to go to the doctor like he's supposed to."

The Hills aren't completely without hope. A major court battle is under way throughout Georgia concerning the plight of homeowners that owed money to Fleet Finance.

The Georgia Attorney General's office has appointed a special investigator to review the cases. The state Office of Consumer Affairs also is investigating.

"They are among the most serious allegations in the 16 years that I have been with the Office of Consumer Affairs," says Barry Reid, consumer affairs administrator.

The case has captured the attention of Congress, with members of both the House and Senate banking committees considering an investigation.

The Georgia case has generated widespread attention partly because it illustrates the sharply limited options minorities confront when they must borrow money. Federal and private studies show, for example, that banks reject black applicants for mortgages at more than twice the rate of white applicants.

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Robert and Christine Hill lost their home after Fleet Finance Inc. of Atlanta foreclosed on a loan.

Fleet's lending operations have faced trouble before in minority communities.

In 1989, the Fleet Finance subsidiary was named with five other defendants in a class action suit in Chicago for purchasing high-interest mortgages from Union Mortgage Co. of Dallas.

Union is charged in the suit with deceitful lending that preyed upon "unsophisticated working-class or retired persons who were unable to pay cash for home improvements," court documents show. Union, which lost a similar suit in Alabama, denies the allegations. The case is pending.

In the past two years, Fleet has committed $123 million, mostly for community development grants, following a mortgage controversy in Massachusetts involving Fleet and a failed bank it bought, the Bank of New England. Minority homeowners reportedly were duped into paying exorbitant interest rates.

In addition, Fleet paid $12 million to settle an investigation with the Massachusetts Attorney General and refinance high-interest loans for about 40 homeowners.

In Philadelphia, former Legal Aid Society attorney Gary Klein, now with the National Consumer Law Center in Boston, said Fleet Finance settled between 30 and 35 lawsuits between 1986 and 1991 involving 100 borrowers who refinanced home equity loans at high interest rates. Fleet Finance staff attorney Terry Franzen said she was unaware of the Philadelphia cases.

Aggressive collection tactics by Fleet subsidiaries aren't new. Fleet's Recoll Management Corp., created to collect on troubled loans from its Bank of New England takeover, agreed last winter to halt foreclosures after the Federal Deposit Insurance Corp. found it wasn't following proper procedures.

The move came after many New England residents complained of what they called Recoll's heavy-handed collection tactics. Some complained, for example, that Recoll demanded full repayment of loans even if they weren't delinquent, because the value of the homes had fallen.

In October, Fleet Finance executives in Atlanta publicly pledged $30 million to help refinance "burdensome" mortgages for customers in Georgia and elsewhere.

They also agreed to reduce interest rates and fees on new loans, and place a 60-day moratorium on foreclosures. It further set aside $8 million in grants to Atlanta communities affected by construction for the 1996 Olympics.

Although the program was announced amid critical news reports on the Georgia homeowners' lawsuits, Fleet Finance denied this was an attempt to settle those disputes.

A key allegation is that Fleet Finance controlled seven smaller lending companies that targeted elderly, low-income black homeowners.

These people, who had substantial equity in their homes, signed loan agreements they couldn't possibly repay, attorneys Brennan and Rothbloom say.

Augusta attorney John B. Long described it as "reverse redlining," meaning the lenders deliberately targeted neighborhoods that had been denied credit by banks.

"That's a lie. We never had any such thing," said Fleet Finance's Scruggs. Race was never a criteria when it bought loans from other lenders, he said, and Fleet Finance has discontinued loan purchases from others. It now intends to loan directly to customers.

The Boston Federal Reserve Bank reviewed Fleet Finance's lending record as a result of citizen complaints stemming from the Massachusetts mortgage case. The review, released in September, provides a mixed assessment.

The Boston Fed said it didn't discover "any obvious instances of fraudulent or altered loan documents." But the Boston Fed said it couldn't completely understand Fleet Finance's relationship with the smaller mortgage companies because of "documenting deficiencies at Fleet Finance."

"Consumer complaint handling and record-keeping procedures were found to be inadequate," the Boston Fed said.

Another key allegation in the Georgia cases is Fleet Finance didn't adequately monitor the quality of loans it was purchasing, and in doing so, created a market for loan sharks.

Fleet Finance did a huge volume of business, with $2.6 billion in assets and 20,000 loans in Georgia alone. Up until December, it was the largest purchaser of home-equity loans in Georgia.

Of Georgia borrowers suing Fleet Finance, Annie Diggs, a 77-year-old widow from Augusta, is a typical example. Fleet Finance purchased an 18.9 percent loan she borrowed to fix a roof. The monthly payment equals half her monthly income of $504.

Scruggs said Fleet screened the people it did business with, and over the last decade severed ties with 10 companies due to consumer complaints.

But he said Fleet Finance, or any company that purchases loans from another company, has limited knowledge of the original borrower-lender relationship.

"When you buy a done deal, of course you don't know what happened," Scruggs said.

A spokesman for Fleet Finance's parent company, Robert Lougee, concedes there were problems.

"Clearly we were in a business where there were some excesses because some of the troublesome loans that were purchased paper," Lougee said.