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Atlanta, Georgia 30334

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Secretary

January 28, 2003

Via Facsimile (212-438-5723) and First Class Mail

Leo C. O'Neill, President
Standard & Poor's
55 Water Street
New York, NY 10041

Dear Mr. O'Neill:

For the past two and a half years, I have joined with a coalition of nonprofit agencies, including AARP, the Coalition for Responsible Lending, the National Consumer Law Center, Neighborhood Assistance Corporation of America, legal services attorneys, former Governor Roy Barnes, Lieutenant Governor Mark Taylor, former State Representative Charles Smith, State Senator Steve Thompson, and many other concerned legislators, who struggled to achieve the passage in the Georgia General Assembly of the strongest anti-predatory mortgage lending law in the country, the Georgia Fair Lending Act ("GFLA").

I sponsored a bill in the 2001 General Assembly that was essentially sidetracked into a House Banking subcommittee after extensive hearings and debates about the problems of predatory mortgage lending in Georgia. Then Governor Roy Barnes took up the cause by offering a bill in the 2002 General Assembly that was based upon a model act created by AARP, the National Consumer Law Center, and the Coalition for Responsible Lending. The Governor's staff received hundreds of inquiries and e-mails from all elements of the mortgage lending industry raising questions about and challenges to virtually every provision of the bill. Governor Barnes made certain that the views of the mortgage lending community, the consumer advocates, and the members of the legislature were fully aired, debated, and addressed. Both houses of the Georgia General Assembly held multiple hearings on the bill. Many changes and concessions were made to address the concerns of the lending community. Toward the end of the legislative session in April 2002, the various interested parties came to an agreement regarding a bill that almost everyone supported. It is noteworthy that the Georgia Bankers Association publicly announced its support for what essentially became the final version of the bill. The bill was enacted into law on April 22, 2002 and became effective October 1, 2002.

Between April and October and thereafter a tremendous public relations effort was undertaken by the mortgage brokers and subprime mortgage lenders to propose amendments in the 2003 General Assembly that would substantially weaken the law. After Governor Barnes was defeated in the 2002 election, these groups were emboldened to go forward with proposals for major changes to GFLA. In my view, these groups faced a serious public relations obstacle. They would have to persuade the citizens of Georgia that the provisions of GFLA which prohibited well-documented predatory mortgage lending abusive practices should be gutted. They began their effort early on by having a few mortgage companies announce they were leaving the state because of the passage of the new law. Consumer advocates reacted to this ploy by pointing out that some of those leaving were among the most abusive predatory lenders and the state would benefit from their exit.

Additionally, these groups put forth arguments that provisions of GFLA adversely affected good mortgage lending in Georgia. In my opinion, the consumer advocates effectively rebutted these charges. They argue that GFLA was specifically designed to refrain from adversely impacting the good low cost mortgage lending business in Georgia. Rather, using an approach that employs interest rate and points and fees triggers to define "High Cost" and "Covered" Loans, GFLA focuses a laser beam not just on the profitable abusive mortgage lending practices in general, but on the segment of the industry where they flourish, namely, the high cost subprime mortgage lending arena. While it is true that GFLA also prohibits four abuses for another category of loans (i.e., "Home Loans"), which covers the vast majority of mortgage loans in Georgia, companies that do good, low cost mortgage lenders in Georgia never engage in these four abusive practices and GFLA provides no assignee liability for this category of loans.

On January 16, 2003, your company announced that as of February 1, 2003, it would no longer rate securities issued on the three categories of loan covered by GFLA: High Cost Loans, Covered Home Loans, and Home Loans. According to your company, violations of the statute will subject non-complying parties to potentially severe liability. Your press release goes on to say, "[m]ost importantly, however, the GFLA subjects assignees of Home Loans that violate the Act to potential liability." This portion of your announcement causes grave concern because it is untrue.

I was deeply involved in the legislative process which resulted in the enactment of GFLA. I have reviewed the provisions of the law. I have asked other experts to review the law for me. It is their opinion and my opinion, that while GFLA provides assignee liability for High Cost Loans and Covered Loans, it does not provide for assignee liability for Home Loans. As you stated in your press release, assignee liability subjects assignees to liability for violations of GFLA by third parties such as the originators of the mortgage loan. The four prohibitions set out in the Home Loan category, do not fit this definition of assignee liability. The prohibition on selling single premium financed credit insurance applies to creditors who make mortgages. While the word "creditor" is defined in the statute as including original lenders and assignees, the word "makes" is defined as covering only mortgage originators and mortgage brokers. Therefore, assignees could not be liable under this provision. The second provision prohibits

original mortgage lenders and brokers encouraging potential borrowers to default on their current mortgage payments and debts in connection the closing of a mortgage loan. This provision clearly only applies only to mortgage brokers and originators and would never apply to assignees who have no contact with borrowers entering into a mortgage loan. The third provision prohibits charging late fees more than 5% per month, and the fourth provision prohibits charging more than \$10 for payoff quotes and requires mortgage holders to promptly provide payoff quotes. While these provisions apply to original lenders and subsequent holders of mortgages, they do not provide that a subsequent holder of a mortgage is liable or responsible for the actions of the original lender. Therefore, these two provisions do not fit the definition of assignee liability.

To summarize, while High Cost Loan provisions provide for full assignee liability, and the Covered Loan provisions provide for limited assignee liability (remedies are available only to homeowners in default or facing foreclosure), the Home Loan category provides for **no assignee** liability, contrary to your assertions in your January 16, 2003 press release.

Your company's announcement has given the opponents of GFLA just the public relations tool they needed to dismantle the provisions of GFLA which protects homeowners and homebuyers victimized by predatory lending practices. These opponents have particularly focused on your analysis of assignee liability for Home Loans, arguing that since Home Loans cover almost all mortgage loans in Georgia that virtually all mortgage lending in Georgia will come to a halt unless major changes are made GFLA. A significantly larger number of mortgage lenders have announced that because of your press release that they will stop making all categories of mortgage loans in Georgia, or that they will leave the state. These developments have been widely reported in the Georgia news media. Moreover, a local, libertarian conservative radio talk show host with a wide-listening audience (Neal Boortz) has used the Standard & Poor's announcement and the reaction of the mortgage lenders to demand that the Georgia General Assembly address Standard & Poor's concerns by immediately amending GFLA. The newly elected Republican Governor Sonny Perdue along with several key legislators have announced that they will immediately respond to the "mortgage lending crisis in Georgia" created by your company's press release by quickly enacting into law changes to GFLA which will address your company's concerns.

The question is then what changes to GFLA would satisfy the mortgage industry and Standard & Poor's. Answers to this question are beginning to emerge. For example, Therese Franzen, an influential industry attorney who represents mortgage brokers and subprime mortgage lenders in Georgia, asserted in a recent news article that the industry would not be satisfied until all assignee liability was stripped away from GFLA. Yesterday, the chair of the Georgia House Banking Committee, Rep. Johnny Floyd, produced a legislative proposal that strips all assignee liability from GFLA.

If assignee liability is stripped away from the High Cost and Covered Loans, the remedies provisions of GFLA would be rendered useless. As you know, most mortgages originated in Georgia are transferred and assigned to companies that bundles these mortgages into pools and issue securities off of them. Stripping assignee liability from the coverage of

GFLA would result in homeowners being unable to assert claims for violations of the law against the ultimate holder or owner of the mortgage. They would be restricted to pursuing claims against the originator of the mortgage. These companies are often insolvent or disappear after making the loans. Moreover, the holder of the mortgage is the entity that the homeowner has to make payments to and which forecloses on the homeowner in the event of default. Homeowners must be able to enforce GFLA remedies against subsequent owners of their mortgages in order for GFLA to fulfill its purpose of protecting homeowners and home buyers from predatory lending practices.

I am therefore compelled to inquire of your company your reasons for taking this drastic action. I am particularly concerned that you have waited until the fourth day of the 2003 legislative session of the Georgia General Assembly to make your announcement. As you surely know, there has been a well orchestrated public relations campaign by elements of the mortgage lending industry to gut GFLA. I wonder why you did not make your announcement at the time of the passage of this law, or at the time of the enactment on October 1, 2002, when a lot of publicity about the law surfaced. I also note that since the passage of the law, there have been no lawsuits filed under the law by homeowners or homebuyers. I would have thought that you would have waited a reasonable period of time to determine the implications of any actual litigation. The state of North Carolina passed a similar law in 1999 and we have learned that very few lawsuits have been filed under that law, that very few companies have left the state of North Carolina, and that no ratings agencies have refused to rate securities issued off North Carolina mortgages.

I also note that two weeks ago Fitch announced that any questions or concerns about assignee liability are adequately addressed by the use of representations and warranties in the securitization process. Moreover, the other large rating company (Moody's) has not replicated your decision to stop rating Georgia mortgage securities.

I note that in yesterday's Wall Street Journal that the SEC has undertaken an inquiry into "anticompetitive practices and other issues related to the biggest ratings agencies" (including Standard & Poor's). The article goes on to say that the SEC "would look at possible conflicts of interest that result from rating agencies' getting paid by the companies whose debt securities they rate and whether more disclosure is needed of how the firms determine the creditworthiness of securities." I am also aware that your company rates a substantial amount of subprime mortgage securities, including securities issued on pools of loans made by the following companies or their affiliates: Household Funding Corporation, Ameriquest Mortgage Company, Chase Funding, Inc. (subprime), New Century Mortgage Corp., Saxon Mortgage Securities Corp., First Franklin Financial Corp., Option One Mortgage, Delta Funding Corp., and Wells Fargo Bank, NA. Many homeowners and home buyers in Georgia and around the country (along with legal services and private attorneys who represent them) have raised concerns about the lending practices of these companies. Moreover, consumer advocacy groups around the country have organized protests against the lending practices of some of these companies. Recently, Household International entered into a \$480 million settlement agreement with state attorneys general arising out of alleged predatory mortgage lending practices engaged in by subsidiaries of

this company.

I also note that your company rates securities issued by CitiCorp Mortgage Securities, Inc. These securities are issued off of loan pools consisting of prime mortgage loans made by a CitiCorp mortgage lending company. CitiGroup, the parent company of these entities, also owns the subprime mortgage lender CitiFinancial, which recently entered into a \$240 million settlement agreement with the Federal Trade Commission arising out of the alleged predatory mortgage lending practices of subsidiaries of Associates First Capital which CitiGroup acquired.

I am also aware that the subprime mortgage loan originations have increased dramatically in this country. According to Inside B&C Lending, a highly respected industry newsletter, subprime originations increased 85.5% between 2000 and 2001 with a total volume of more than \$211 billion. Additionally, Inside B&C Lending reports that the securitization of subprime mortgages has also dramatically increased. Over \$134 billion in new securities backed by subprime mortgages were issued in 2002, a 40.2% rise over 2001's \$95.58 billion in volume. This increase in securitizations in subprime mortgages benefits your company. Because your company rates subprime mortgage securities, I believe this increase in subprime mortgage loans and securitizations directly benefits your company because the more subprime securities you rate, the more money you make. Therefore, a law such as GFLA which prohibits profitable subprime mortgage lending abuses poses a potential threat to your profits.

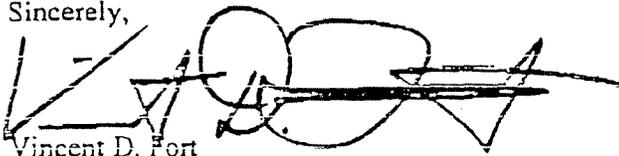
Based on the information revealed in the Wall Street Journal article and the facts set out above, I am asking you to respond to these questions.

1. Has your company received any payment or anything of value from any of the companies that profit from the subprime mortgage origination and securitization process (including banks, mortgage lenders, mortgage brokers, finance companies, securities underwriters, mortgage servicers, or any other entities)?
2. Have any of these companies requested, influenced, or paid Standard & Poor's to make your announcement that you would stop rating securities issued on Georgia mortgage loans covered by GFLA?
3. Has your company received any payment or anything of value from any of the following companies or their affiliates: Household Funding Corporation, Ameriquest Mortgage Company, Chase Funding, Inc. (subprime), New Century Mortgage Corp., Saxon Mortgage Securities Corp., First Franklin Financial Corp., Option One Mortgage, Delta Funding Corp., Wells Fargo Bank, NA, and CitiCorp Mortgage Securities, Inc.?
4. Have any of the companies identified in question number 3 requested, influenced, or paid Standard & Poor's to make your announcement that you would stop rating securities issued on Georgia mortgage loans covered by GFLA?

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Finally, I am extremely distressed that your abstract, theoretical projections regarding potential assignee liability in the future and your inaccurate characterizations of the assignee liability provisions of GFLA are being used to undo a law which provides protection to citizens of Georgia, particularly low and moderate income, elderly and minority homeowners and home buyers who lose their homes because of predatory mortgage lending practices. I am also distressed that a for-profit company such as Standard & Poor's has interfered in the Georgia legislative process. Your decision and the reaction it engendered has given the appearance that Standard & Poor's is dictating to our elected officials what must be done to change the provisions of a strong consumer protection law. I am gravely concerned that this process will bring about changes to GFLA which would remove desperately needed protections for the Georgia citizens who are and will be subjected to predatory mortgage lending practices.

Sincerely,

A handwritten signature in black ink, appearing to read 'Vincent D. Fort', with a large, stylized flourish extending to the right.

Vincent D. Fort
Georgia State Senator
District 39

//VDF