

## **A subprime mortgage wolf tries wearing sheep's clothing**

June 21, 2009

Errol Louis

Years before the rest of the world learned how much damage can follow making bad mortgage loans, community organizations and regulators in New York tried mightily - with some success - to identify predatory mortgage lenders and put an end to the worst abuses.

The heart of the problem was a web of irresponsible bankers, brokers, attorneys and appraisers who booked an astonishing number of subprime mortgages - loans they knew would never be repaid - and then washed their hands of the mess, packaging the toxic loans as securities to be sold and re-sold on Wall Street to gullible investors.

Among the worst offenders - by far - was a Woodbury, Long Island-based outfit called Delta Funding.

It turns out that the principal players from Delta, which filed for bankruptcy in 2007 and laid off its staff when the financial crisis hit last year, are back at it again.

Delta's CEO, Hugh Miller, along with the company's chief financial officer and two senior V.P.s, have formed a mortgage bank called Reliance Capital, based in Woodbury, that has applied to the state banking department for permission to do business in New York.

The company's Web site advertises "105% Refi" - mortgages for more than a property is worth. It's the same hustle that led to countless lawsuits, foreclosures and misery.

Consumer rights groups are incensed, demanding that the new company be denied a license to do business in the state. Leading the charge is Josh Zinner, co-director of the Neighborhood Economic Development Advocacy Project. In the 1990s, as a Legal Aid attorney, he was among the first to sound the warning about Delta.

"We would get hundreds of calls about Delta," Zinner says. "They wrecked entire neighborhoods in Queens, Brooklyn, Philadelphia, you name it. Literally thousands of people had their lives ruined."

Delta's practices included piling on huge fees; making loans far in excess of a property's true value by using inflated appraisals; and accepting obviously fake income documentation from loosely-supervised brokers.

Then there was a tactic called yield-spread premiums. Here's how it worked: if a broker found a borrower that qualified for, let's say, a 7% loan, the broker would talk the borrower into signing for a 9% loan - and would pocket the 2% difference.

Yield-spread premiums are now illegal in New York, in part because of Delta. According to the office of then-Attorney General Eliot Spitzer, Delta deliberately targeted communities of color for these inflated-cost loans.

Spitzer sued Delta, accusing the lender of generating "illegal, discriminatory, and fraudulent high-cost mortgage loans, which defendants have reason to know these borrowers either cannot repay or can repay only through extreme personal and financial privation."

Delta eventually signed a legal settlement with five federal and state agencies, including HUD, the state banking department and the federal trade commission.

The company agreed to drop some of the worst practices and paid \$7.25 million in restitution to its victims and nearly \$5 million for fair-lending and homeowner counseling programs.

News that the men who ran Delta are trying to start a new lending company has spurred more than a dozen city and state elected officials and a statewide coalition of community groups to send a letter to the banking department, arguing that Miller and the old Delta crew fail a state requirement that banking companies demonstrate "financial responsibility, experience, character, and general fitness."

The bank regulators should listen attentively to the community groups. We've already had an expensive lesson in what happens when shady operators are allowed to run wild.

---

This document is provided for "fair use" not-for-profit, educational purposes (and other related purposes). If you wish to use this copyrighted material for purposes of your own that go beyond "fair use," you must obtain permission from the copyright owner.