

SUBPRIME LENDING PRACTICES

WHEREAS our corporation is a significant subprime mortgage lender with subprime lending totaling an estimated \$___ billion in 2002;

Public concern has been gathering about certain lending practices of some subprime lenders, which are considered predatory on consumers. In originating subprime loans a number of subprime lenders have been investigated by federal and state authorities for alleged predatory lending practices.

These predatory practices include:

- Credit life insurance being implied as necessary to obtain a loan (packing);
- Unnecessarily high fees;
- Loans refinanced with high additional fees rather than working out a loan that is in arrears (flipping);
- High pre-payment fees, with prepayment penalties applying for more than three years;
- Borrowers with inadequate income receiving loans, who will then default;
- Payment performances of borrowers not being reported to credit agencies.

Such practices have led to large settlements:

In the Fall of 2002, the two largest subprime lenders entered into settlements, which provide restitution of funds to consumers allegedly wronged by some of these practices.

- Household International settled with the Attorneys General of 20 states to provide a \$484 million restitution fund and,
- Citigroup made a similar settlement for \$215 million with Federal Trade Commission for the practices of Associates First Capital, prior to its purchase by Citigroup.

The wholesale channel loans (loans arranged by brokers) and the correspondent channel loans (loans purchased after being closed by another party) accounted for an estimated ___% of our corporation's subprime lending in 2002.

We believe that these subprime loans, through wholesale and correspondent channels, are particularly prone to possible predatory practices because the corporation does not have direct control over the agents who deal directly with the consumer. The practices of these independent agents cannot be controlled and monitored as effectively as those of our corporation.

As a result our corporation must apply stringent requirements to these brokers and to the screening of their loan applications to avoid any allegations of predatory lending.

We believe subprime lending does serve a useful and legitimate purpose when done in a manner that properly educates and adequately discloses costs and options to consumers and potential risks to shareholders;

BE IT RESOLVED that the shareholders request the Board of Directors to establish a committee consisting of outside directors of the Corporation to oversee the development and enforcement of policies to ensure that no employee of or broker for the corporation engages in predatory lending practices and that no loan originated or purchased is entailed by predatory practices; and to report before the next annual meeting to the shareholders on policies and their enforcement.