BUSINESS

Economic reports show slower growth in future

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NEW YORK (AP) — The Federal Reserve's interest rate increases appear to be slowing the economy, with reports Wednesday of a steep decline in sales of new homes in April and a dip in a barometer of future economic activity.

Analysts said the figures added to evidence of a minor softening of the economy, with the growth rate. Reserve are expected to continue a campaign of raising rates to keep growth at a sustainable level.

On Wall Street, the unexpected signs of slowing set off a rally in the inflation-sensitive bond market and stocks were adding modestly to Tuesday's sharp gains.

The Commerce Department reported in Washington that sales of new homes dropped 5.8 percent in April, the biggest decline since September and a reversal of a similar increase in March. The decline in home sales was accompanied by a drop in the median price of homes, which declined 2.2 percent to $161,400, the lowest level since last October. The median price, the point at which half the homes sold for more and half for less, had risen to $165,000 in March.

In New York, the private business-supported Conference Board said the Index of Leading Economic Indicators, which attempts to gauge the economy three to six months in the future, declined by 0.1 percent in April.

Analysts had expected the leading indicators index to advance slightly in April on a strong increase in the factory work week. Instead, it was pulled down by interest rates and a decline in manufacturers' new orders.

"The data suggest that some sectors may be beginning to respond to Fed tightening," said economist Ken Goldstein at the Conference Board.

Since last June, the Federal Reserve has increased interest rates six times in an effort to keep inflation under control by raising the cost of borrowing for consumers and business and slowing economic activity. The latest increase, on May 16, was one-half percentage point, or 50 basis points, unlike the five previous increases of one-quarter point.

"We are seeing a deceleration ... to a growth rate that is still above potential, so the Fed is likely to tighten by another 50 basis points," said Kathleen Stephansen, a senior economist at Donaldson, Lufkin & Jenrette Securities Corp. in New York.

Mortgage rates have risen with the Fed's increases, and 30-year mortgages now are averaging 8.62 percent, up more than a full percentage point from a year ago and at a level last seen in 1995.

The drop in sales of new single-family homes, to an annual rate of 909,000, was the biggest since a 7.2 percent decrease in September. Sales had jumped 5.8 percent in March, pushing the pace to 965,000 homes, the second-highest level in history.

"When you look at the absolute level ... this is really a stabilization," Stephansen said. "It still leaves you with a housing sector that is relatively strong in the current quarter."

Economist Joseph Carson at investment bank UBS Warburg LLC in Stamford, Conn., said the decline in the leading indicators "does indicate a little bit of a change in trend."

The index stands at 106.0 after increasing 0.5 percent the last six months. The index stood at 100 in 1996, its base year.

The recent decline adds to mounting evidence that the economy is slowing, Carson said. However, growth is likely to continue at a pace that will keep workers in tight supply, prompting more rate increases by the Fed.

In other economic news, the government said Wednesday that consumers spent $5.26 billion shopping on the Internet during the first three months of this year, an increase of 1.2 percent from the previous quarter.

Total retail sales during the period were $747.8 billion, meaning that 70 cents of every $100 in retail sales were spent online, the Commerce Department estimated.

Lawmakers examining ways to scuttle lending policies

WASHINGTON (AP) — Top government officials criticized abusive mortgage lending practices Wednesday, but Republican lawmakers remained noncommittal toward new legislation proposed by Democrats aimed at curbing so-called predatory lending.

The Clinton administration has endorsed the proposal, but the lack of Republican support weakens its prospects for passage by the GOP-controlled Congress.

Regulators are concerned about the growing practice by some mortgage and home-equity companies of seeking low-income borrowers and charging them what are considered unfairly high fees and interest.

Such high-cost loans, while legal, have increasingly drawn criticism.

Abusive lending practices "are often targeted at the most vulnerable among us — elderly Americans and low-income Americans - and often are targeted at minorities," Treasury Undersecretary Gary Gensler testified at a hearing of the House Banking Committee.

The issue shot into prominence in March when Federal Reserve Chairman Alan Greenspan criticized the practice in a speech, calling it "abusive" and saying it can damage poorer neighborhoods.

Rep. Jim Leach, R-Iowa, the Banking Committee's chairman, proposed at Wednesday's hearing a series of principles that policymakers should consider in trying to address predatory lending practices. His first principle: "Consumers deserve meaningful and clearly understandable disclosures of loan agreements."

In addition, Leach said, lenders should not extend credit to borrowers unless they have determined the borrowers are capable of repaying the loans on their original terms.

In some cases, critics say, consumer finance companies have taken advantage of people with low incomes or inferior credit histories, many of them minorities or elderly, who cannot get conventional loans and are desperate to become homeowners or raise cash by borrowing against their homes.

Banking industry officials maintain that finance companies provide a valuable service to consumers whose low incomes and poor credit records prevent them from qualifying for normal loans. They say new regulations could dry up credit in many of the poorer areas that need it.

The proposed legislation would extend consumer protections under current law to cover more high-cost mortgage refinancings, home equity loans and home repair loans.

The law allows such high-cost loans, but lenders are subject to special restrictions and disclosure requirements.

The law currently defines high-cost loans as those with interest rates that are 10 or more percentage points above the yield on Treasury securities with the same term. High fees are defined as those exceeding 8 percent of the loan amount.

The proposed legislation would lower those "triggers" to 6 or more percentage points and 5 percent of the loan, respectively.

The bill sponsored by Rep. John LaFalce of New York, the Banking Committee's senior Democrat, also would:

-Prohibit up-front collection and financing of any credit insurance or similar product on high-cost loans.

-Limit prepayment penalties to 3 percent of the loan amount.

-Prohibit lenders from demanding payment in full of the loan balance under "call" provisions of mortgages.

-Require companies making high-cost loans to determine that the borrower is able to repay the loan based on federal criteria.

-Require lenders to warn consumers in writing about the higher risks of such loans and the need for credit counseling, and to provide a list of local certified credit counselors.

Some tips on how to spot predatory loans

Associated Press

Here are some warning signs of predatory, or abusive, mortgage lending, according to the National Association of Consumer Advocates, which provides legal representation to consumers in court and administrative proceedings.

The group suggests that if your answer to any of the following five questions is "yes," you may have a loan for which you are paying much more than you should and which could put your home at risk of foreclosure.

NACA also advises that if you are considering a loan with these terms, do not take it. Consumers should determine how big of a loan they really need and shop around for the best rate and terms. Consumers should never take a loan without getting several bids from different lenders, the group says:

-Were you approached by a lender and asked to take out a loan against the equity in your home?

Solicitations for predatory mortgage loans come in the mail, by telephone and from people knocking on doors.

-Did they encourage you to make home improvements?

Predatory lenders can increase the amount of a loan by convincing borrowers that their home needs a new porch, new windows or a new roof and then overcharging for the work.

-Were you asked to refinance your first mortgage or to consolidate credit card debt in a home loan?

Predatory lenders seek to increase their earnings by consolidating borrowers' debt into their loans and charging high interest rates and fees.

-Was credit, life or disability insurance or another form of insurance included in the loan?

These types of insurance, usually unnecessary, often involve high premium payments rolled into the cost of the mortgage loan.

-Is there a prepayment penalty on the loan?

Predatory lenders want you to keep paying high interest rates rather than paying off the loan early.

Johnson

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"That is absolutely fascinating," Beschloss said, adding that Johnson had worried his previous civil rights legislation would give Republicans an insurmountable advantage in the South — unless, as King noted, blacks began voting in large numbers.

He said Johnson's ability to talk with Wallace, instead of lecturing him, probably helped prevent a lot of violence against demonstrators during the March 21 procession.

"I think if you had a Northern liberal president who called up Wallace to scream at him, that would have provoked Wallace to do worse," he said.