

Recognizing Predatory Lenders

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Predatory lenders and/or mortgage brokers take advantage of consumers who want to buy a house, refinance or get a home-equity loan. They use abusive lending practices.

Are You A Target?

You may be a target for predatory lenders if two or more of these factors apply to you:

- ◆ Large percentage of equity in your home
- ◆ Have trouble qualifying for conventional loans
- ◆ Elderly homeowners with equity and fixed income
- ◆ Large credit card or other debt that could be consolidated
- ◆ Live in areas targeted by home repair contractors or mortgage brokers
- ◆ Low income
- ◆ Minority borrower
- ◆ Female
- ◆ Experienced a recent death, divorce of a spouse or bankruptcy

If you are approached by a home-improvement contractor or mortgage broker claiming to find you the best deal for a home-related loan, **BEWARE**. What they may really want is to make a profit from fees or kickbacks they get based on the loan amount you borrow. This means you will actually pay more, not less, for your loan. Warning signs that you may be dealing with a **PREDATOR**:



- ◆ High interest rates (above 10%)
- ◆ High fees and closing costs (above 5% of money borrowed)
- ◆ Loan has a balloon payment
- ◆ Negative amortization
- ◆ Inflated appraisal costs
- ◆ Padded recording fees
- ◆ Fake broker fees
- ◆ Back-dating of documents
- ◆ Excessive charges for copies
- ◆ Credit insurance required
- ◆ Mandatory arbitration clauses
- ◆ Loans based on inflated property values
- ◆ Rushed closing
- ◆ Application fees not credited to closing costs
- ◆ Different terms at closing than promised
- ◆ Push to keep refinancing (flipping)
- ◆ Excessive late fees
- ◆ Excessive prepayment penalties

Predatory Marketing & Sales Techniques

- ◆ Aggressive sales techniques
- ◆ Steering you to high-rate lenders
- ◆ Financing arranged by contractors
- ◆ Door-to-door solicitation
- ◆ Large fees or kickbacks paid to the mortgage broker by lender
- ◆ Paying off low-rate mortgages with higher rate mortgages
- ◆ Loans made to mentally incapacitated or elderly homeowners
- ◆ Switching unsecured debt (i.e. credit card debt) into mortgages “debt consolidation”
- ◆ Loans in excess of 100% of the value of your home

Avoiding Predatory Lenders

Source: John Merrill, Professor/Housing Specialist School of Human Ecology, University of Wisconsin

If you are considering refinancing your home or if you are looking for a new mortgage check out these details to avoid being the victim of a predatory lender:

- ▲ Check the closing costs carefully. When you obtain a mortgage, there are usually some front-end costs. However, predatory lenders may charge between 10% and 25% of the amount borrowed up front. These costs must be listed on the Truth-In-Lending Disclosure that every lender is required to provide within 3 business days of your application. Read it carefully and ask about costs you don't understand. Some lenders include the closing costs in the amount borrowed so you are less likely to notice them. Ask about this or you will be paying interest on these costs over the life of your loan.
- ▲ What is the term of the loan? Some lenders provide short-term loans and then require the payment of additional fees when the loan must be renewed. Sometimes these short-term loans have attractively low payments. Unfortunately, the reason for the low payments is that the payments only cover interest. Check to see if there is a lump sum payment or balloon payment required at the end of the loan term.

- ▶ Is the interest rate fixed for the life of the loan or is it just for a few months? Many mortgages now have rates that change from time to time. They are often referred to as ARM's (adjustable rate mortgages). Just because a loan is an ARM doesn't make it a predatory practice. However, some lenders use "teaser" rates that increase sharply once the loan is in place that are not legitimate ARMs. Interest rate information is required to be in the Truth-In-Lending Disclosure.

- ▶ Are you being encouraged to borrow more than you need or to refinance too soon after you close the loan? The more you borrow and the more often you borrow, the more money the lender makes. Borrow only what you need and refinance only for important purposes like home repairs or medical bills or to substantially reduce interest charges on your mortgage.

- ▶ Is a home improvement contractor offering to arrange financing for you as part of a door-to-door marketing campaign? The financing being offered may be very expensive and may be to the benefit of the contractor, not you. As soon as you sign the loan, the contractor is paid whether or not the work is done.

- ▶ Is the lender requiring you to purchase credit life insurance to get the loan? These insurance policies pay off the mortgage if you should die. They often have very high premiums and predatory lenders require that the premium for the life of the mortgage be paid when you close the loan. If you sell the house or pay off the loan early, the insurance you paid in full will then be worthless since it is tied to the loan.

- ▶ Does the lender answer questions directly and completely? If the lender seems to avoid answering your questions or showing you the information you request, it is a good idea to look elsewhere for your loan.
Use the "Before You Borrow Money Checklist" to help you with the questions and answers you need to find a good loan.



"Before You Borrow Money" Checklist

The Consumer Law Committee of the Bar Association of Metropolitan St. Louis provides this checklist as a public service.

What this list is for:

This checklist is to help you better understand the terms of the proposed real estate loan you are thinking of taking out.

Who this list is for:

It's for you, if you're thinking of borrowing money to buy a home or refinance your current home.

How to use this list:

First, read the list of questions.

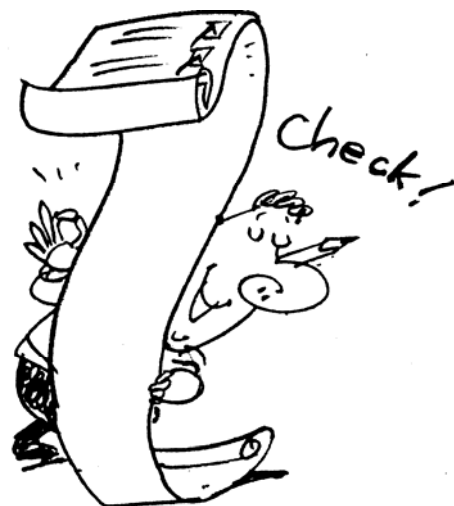
Second, give the list to the person who wants to arrange your loan **BEFORE** you agree to take out the loan.

Third, ask the loan arranger to answer each question "Yes" or "No" in the checkboxes provided, sign and date the checklist in the space provided, and give the list back to you. You should keep the original. The loan arranger can make a copy if he or she wants to.

Fourth, ask the loan arranger to explain each "Yes" answer and its effect on you.

Fifth, if the loan arranger is unwilling to answer the questions or if you are not satisfied with any of the explanations, consider looking elsewhere for a loan.

Important Reminder: There are many other questions that you can and should ask and get answers to before you agree to take out a loan to buy or refinance a house. If you don't know what they are, you have more homework to do before you're ready to take out a loan.



To the Loan Arranger:

This checklist is to help your customer understand more about the terms of the loan you are offering. Please review the list, answer each question “Yes” or “No,” sign and date the completed answers, give the answers back to your customer, and be ready to explain any of your answers to your customer. Thank you for your cooperation.

Part 1: Whom am I dealing with?

- | | Yes | No |
|---|--------------------------|--------------------------|
| 1. Is a mortgage broker arranging this loan? | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. Are you planning to sell this loan to anyone? | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Do you sell most or all of the loans you make? | <input type="checkbox"/> | <input type="checkbox"/> |

Part 2: What fees am I being asked to pay?

- | | Yes | No |
|--|--------------------------|--------------------------|
| 4. Will I be charged a fee by anyone for arranging this loan? | <input type="checkbox"/> | <input type="checkbox"/> |
| 5. Is anyone being paid a “yield spread premium” fee, a referral fee, or other similar fee in connection with this loan? | <input type="checkbox"/> | <input type="checkbox"/> |
| 6. Will I be charged a “loan origination” fee, plus extra fees for preparing documents or underwriting? | <input type="checkbox"/> | <input type="checkbox"/> |
| 7. Will I be charged more for credit reports than they actually cost you or the lender to get? | <input type="checkbox"/> | <input type="checkbox"/> |
| 8. Will I be charged for more than one appraisal on the house? | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. Will I be charged more for recording fees than they actually cost you or the lender? | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. Will I be charged a broker’s fee? | <input type="checkbox"/> | <input type="checkbox"/> |

Part 3: What are the terms of this loan?

- | | Yes | No |
|---|--------------------------|--------------------------|
| 11. Will I have to pay more than 28% of my gross income to make the payments on this loan? | <input type="checkbox"/> | <input type="checkbox"/> |
| 12. Will I be asked to get a co-signer to get this loan? | <input type="checkbox"/> | <input type="checkbox"/> |
| 13. Will I be charged an interest rate of more than 3 points above the prime rate on this loan? | <input type="checkbox"/> | <input type="checkbox"/> |
| 14. Will I be charged fees or “points” of more than 3% of the amount of the loan? | <input type="checkbox"/> | <input type="checkbox"/> |

- | | Yes | No |
|---|--------------------------|--------------------------|
| 15. Will there be a balloon payment at the end of this loan? | <input type="checkbox"/> | <input type="checkbox"/> |
| 16. Will the amount of my monthly payment be enough to make my outstanding balance go down each month? | <input type="checkbox"/> | <input type="checkbox"/> |
| 17. Am I buying credit life or disability insurance as part of this loan? | <input type="checkbox"/> | <input type="checkbox"/> |
| 18. Is there a penalty if I pay off the loan early? | <input type="checkbox"/> | <input type="checkbox"/> |
| 19. Is there a mandatory arbitration clause in this loan? | <input type="checkbox"/> | <input type="checkbox"/> |
| 20. Will you make me pay off old debts in order to get this loan? | <input type="checkbox"/> | <input type="checkbox"/> |
| 21. Will this loan turn some of my unsecured debt into secured debt? | <input type="checkbox"/> | <input type="checkbox"/> |
| 22. Is this loan going to be for more than the value of my house? | <input type="checkbox"/> | <input type="checkbox"/> |
| 23. In combination with other loans I will have on my house, will this loan be for more than the value of my house? | <input type="checkbox"/> | <input type="checkbox"/> |

Part 4: Special questions for mortgage brokers

- | | Yes | No |
|--|--------------------------|--------------------------|
| 24. Did you contact only one lender about my loan? If more, how many? | <input type="checkbox"/> | <input type="checkbox"/> |
| 25. Did any lender offer or qualify me for a lower interest rate than the loan you are presenting to me? | <input type="checkbox"/> | <input type="checkbox"/> |

Part 5: If this is a refinancing, how does it compare to my situation now?

- | | Yes | No |
|--|--------------------------|--------------------------|
| 26. If this loan is for a refinancing, am I being asked to give up part-ownership of my house? | <input type="checkbox"/> | <input type="checkbox"/> |
| 27. If this is a refinancing, would it cost me less interest and fees to simply take out a second loan for the new money I want to borrow now, rather than to completely refinance my house? | <input type="checkbox"/> | <input type="checkbox"/> |
| 28. If this is a refinancing, will my new interest rate be higher than my old one? | <input type="checkbox"/> | <input type="checkbox"/> |
| 29. If this is a refinancing, will my new monthly payment be higher than my old one? | <input type="checkbox"/> | <input type="checkbox"/> |
| 30. If this is a refinancing, will I pay more interest over the life of this new loan than I would have paid over the life of my old loan? | <input type="checkbox"/> | <input type="checkbox"/> |

Part 6: Last, But Not Least ...

- | | Yes | No |
|--|--------------------------|--------------------------|
| 31. Are you going to ask me to sign any forms on which the blanks have not all been filled in? | <input type="checkbox"/> | <input type="checkbox"/> |
| 32. Are you going to ask me to sign any forms you haven't explained to me? | <input type="checkbox"/> | <input type="checkbox"/> |
| 33. Are you going to ask me to sign any forms you haven't given me the chance to read? | <input type="checkbox"/> | <input type="checkbox"/> |

These questions answered by:

(Signature)

(Date)

(Print name)

(Address and phone)

(Title)

(Company)

The presence of one or more “Yes” answers should not be assumed to be a negative reflection on the terms of a proposed loan or the practices of any lender, broker, loan arranger or other commercial entity. **Anyone thinking of borrowing money should carefully evaluate each proposed loan on its own terms!** If more than three yes boxes are checked, consider getting help from a local housing counseling agency to evaluate your loan.