

# Beware of Predatory Lending!

## What is predatory lending?

A predatory lender pushes unjustifiably expensive refinancing or home equity loans on homeowners. These loans are often to consolidate debts or finance home improvements. Predatory lenders target homeowners with low incomes or poor credit histories. They commonly make contact through telephone calls, door-to-door visits, television advertisements, or sending mail solicitations that include checks for thousands of dollars.

Predatory lenders make promises that seem too good to be true and use high-pressure tactics to convince homeowners to sign up on the spot. In reality, these lenders charge more than what is reasonable, but conceal these costs. Often they intentionally lend more money than the homeowners can afford to pay back. They commonly don't fully disclose the loan terms or will write the terms in a way that ensures they receive an unreasonable amount of profit.

Predatory lenders trick homeowners by luring them into loans when it is impossible for them to keep up with the payments or they may end up paying unnecessary fees and excessive interest charges. This is called "equity stripping". If the homeowner misses payments, they risk losing their homes.

Sometimes predatory lenders work with home improvement contractors to take advantage of homeowners who need to make repairs on their homes or modify their homes to accommodate a disability. The contractor approaches the homeowner and convinces them to take out a loan with the predatory lender to pay for the work. The home improvements can be grossly overpriced and the work shoddy and incomplete.

## Why is the Fair Housing Council of Oregon, which deals with illegal housing discrimination, interested in predatory lending?

Unscrupulous predatory lenders frequently target the same individuals who may be victims of illegal housing discrimination practices:

- Elderly/disabled homeowners living on fixed incomes but with substantial equity in their homes

- Minority groups whose access to legitimate sources of loans is disproportionately denied
- Low and moderate income homeowners who have less than perfect credit.

Oregon has seen a dramatic increase in predatory loans over the last ten years since many homeowners have experienced increased property values and are using their equity as a means to borrow money. Predatory lenders have become more sophisticated and more homeowners are falling victim to these loans and facing mortgage foreclosure.

## How can you spot a predatory loan?

- **High interest rates** in excess of what is justified by the lender's credit risk; generally rates more than 14%.
- **Monthly payments higher than you can afford to pay**
- **High points and fees.** Avoid paying fees exceeding 3% of the loan. There are all kinds of fees: origination, underwriting, document preparation and commitment fees. They are all lender profit.
- **Unnecessary insurance:** Some lenders will lead you to purchase types insurance such as credit or life insurance. Sometimes they include this in the loan without the borrower's knowledge. This insurance is very expensive and paying it up front requires you to pay interest on it as well.
- **Adding additional products like credit insurance and club memberships.** Purchase these products separately; otherwise the premiums could be excessive.
- **Balloon payments:** Balloon payments are common. They have a lower monthly rate for a limited period of time and require paying a large lump sum or "balloon" payment within a few years. A predatory lender will charge excessive closing costs, and then require the loan be paid off in two to five years. Sometimes the fact that there will be a balloon payment is kept hidden from the borrower.
- **Charging penalties for paying the loan off early or for refinancing. Five years is common for predatory loans.**
- **Unauthorized refinancing of your home**

- **Deed signing:** If you are behind on your mortgage, the lender may offer to help find new financing and ask you to deed over your property to them as a “temporary measure” to prevent foreclosure. Then the promised loan never comes and you no longer own your home!
- **Mandatory arbitration:** If you sign this you will forfeit your right to sue in court if the lender does something you believe is illegal.
- **Bait and switch:** The lender quotes you one interest rate quoted at the beginning of a deal, with a much higher rate at closing
- **Loan flipping:** After you make a few payments on your loan, the predatory lender calls you back to offer you a bigger loan. Each time you do this refinancing, you must then pay high points, fees and a higher interest rate. And if your original loan had a prepayment penalty, you’ll have to pay that also.

### **How can you avoid getting lured into a predatory loan?**

- Think twice before borrowing against your home, especially borrowing more than the value of your home. Some lenders may make loans for more than the home is worth. Ask yourself if you must have this loan. If you’re having money problems, consider all your options before you use your home as collateral. Consider contacting a consumer credit counseling agency. Remember, if you decide to get a home loan and can’t make the payments later, the lender could foreclose and you could lose your home.
- If you do borrow, borrow only the amount you actually need
- Borrow only within your income and budget
- Before you look into borrowing, get the facts about your credit history. Your credit history shows your record of paying back past loans and credit cards. Knowing this will help you know what lenders will find out about you when they check your credit history. It is also important for you to review your credit history because sometimes there are errors, which you will need to correct. There are three companies, which maintain national credit databases and provide information about you to lenders requesting your credit history. You should contact all of them, which is what the lenders will do, because each database does not contain all of the same information about you. They may charge you a small amount for the report.

- **Equifax**, Phone: (800) 685-1111, or [www.equifax.com](http://www.equifax.com)
  - **Experian**, Phone: (866) 397-3742, or [www.experian.com](http://www.experian.com)
  - **Transunion**, Phone: (800) 916-8800, or [www.transunion.com](http://www.transunion.com)
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- Always shop around for a loan. Get at least three written quotes for up-front costs, interest rates, loan terms and monthly payments. Sometimes lenders aren't willing to provide quotes or estimates unless a borrower submits a formal application. Borrowers should ask to get pre-qualified to compare with other lenders without having to commit any funds.
  - Avoid lenders that solicit by telemarketing, television ads, direct mail and door-to-door solicitation. To prevent future telemarketing calls, call 1-888-5OPTOUT.
  - Don't trust loan ads that say: "No credit, no problem" or agencies offering to "fix" bad credit.
  - Shop around for home improvement contractors too. Get several bids from contractors and don't get talked into borrowing more money than you need. Don't let a contractor refer you to a specific lender to pay for their work.
  - Don't just look at the monthly payments on the loan. Consider the duration or term of the loan and the total cost for loan fees.
  - Beware of any loan for more than your house is actually worth. You could potentially lose your home and still owe additional money to the lender (the amount above the value of your home).
  - Remember a low monthly payment isn't always a good deal. Look at the total cost of the loan over the entire repayment period.
  - Read all the documents carefully before you sign. The lender may have changed the numbers or added numbers since you originally talked about the loan.
  - Don't give in to high sales pressure tactics. Remember you don't have to say yes right away.
  - Ask lots of questions

- If you don't understand the loan terms, ask someone you trust to look the loan documents over for you. If you feel uncomfortable or unsure of some issues, consider hiring an attorney for a few hundred dollars to review any papers you've been asked to sign.
- Don't ever sign a partially blank document without all the numbers filled in. Beware of lenders who promise to fill the numbers in later.
- Remember, under the Truth in Lending Act, borrowers can change their mind within three business days of signing a contract when their homes are offered as security. But remember three days go by quickly. It's better to research and be comfortable with all aspects of the loan before you sign. If you do change your mind within the three day period, you must notify the lender in writing that you don't want the loan.
- Make sure any check written for home improvement is written to you and not directly to the contractor. You should not pay the contractor until you are satisfied with the work they have completed
- Consumers should take advantage of free information through organizations like HUD, Fannie Mae, Oregon Housing and Community Services and nonprofit organizations.

### **What if you think you already took a predatory loan and need help?**

Call the Fair Housing Council of Oregon at 503-223-8197 in the Portland metro area or 800-424-3247 toll-free. Or call the Oregon Department of Consumer and Business Affairs at 503-378-4140 in Salem, toll-free at 866-814-9710, or visit their website at [www.oregondfcs.org](http://www.oregondfcs.org).