

SECTION 7: UNDERSTANDING HOW TO AVOID PREDATORY LENDERS

Although most reputable lenders do not want to give you a loan that you cannot afford to repay, there are some lenders that will lend you money at exorbitant interest rates or with excessive fees that will make it difficult for you to repay. These **predatory lenders** often target people with less-than-perfect credit or those mystified or overwhelmed by the financing process. They promote their loans in terms that sound too good to be true, and often they are. If you fall prey to a loan like this, you could default on your mortgage, be subject to foreclosure and ultimately lose your home. When you refinance or borrow against your home equity, it is important to work with a reputable lender to get the best loan you can afford. It is critical to know the difference between a good loan and a bad one. Mistaking one for the other could cost you your home.

Warning Signs

There are several things you should be wary of when shopping for a refinance or equity loan:

- *Unusually high interest rates* that go beyond those that protect the lender against the risks associated with borrowers with poor credit or do not reflect the quality of your credit.
- *Excessive points and fees* charged by a lender for products or services whose actual costs are far less than the price quoted to you.
- *Unnecessary products* that are financed into the cost of the loan and do not offer you anything of value.
- *Loans based solely on the equity you have in your home* without any connection to your ability to repay it.
- *Long-term abusive prepayment penalties* that make it hard for you to pay the loan off early.
- *Mandatory **arbitration** clauses* that prevent you from seeking legal remedies in court if your loan has illegal or abusive terms.
- *Steering and targeting* you toward a high-rate loan, even when you qualify for a lower rate.
- *Aggressive solicitations* for repeated refinance loans that do not offer significant benefits to you, such as cash out or a lower interest rate.

The extra charges associated with unscrupulous lenders may make it very challenging, if not impossible, for you to pay your mortgage each month. If you get behind in your payments, these lenders will often harass you until you lose your home.

Tips To Avoid Predatory Lenders

Although predatory lenders have a history of targeting their loan products to low- and moderate-income households, minorities and the elderly, anyone can be a victim. Below are some key things you should do to avoid predatory lenders:

- *Consider refinancing with your current lender.* If you have had a positive experience with the lender you borrowed from for your purchase mortgage, consider using the same lender when you refinance or borrow against your home equity. Your existing lender may even give you a slightly better rate on the loan to ensure that it keeps you as a customer. But beware if your lender or broker repeatedly asks you to refinance.
- *Seek referrals from people you trust.* Ask people you know and trust which lender they are using and whether or not they would recommend their lender. Look for a nonprofit housing organization in your area and ask them for recommendations.
- *Compare the APRs of at least three different lenders.* Look at the real estate section of your local newspaper or at Web site like www.bankrate.com to compare rates for refinance or equity loans and their true costs. This can give you a consistent point of comparison for a variety of loans and provide you with a starting point for a list of local lenders you may want to contact for a price quote. Make sure you compare loans with similar terms — the type of loan (fixed or adjustable), length of loan, etc.
- *Borrow only the amount of money that you need and can afford to repay.* Some lenders may encourage you to borrow more money than you really need or can afford. Be sure that you are clear about how much money you need and also that you have the ability to repay the loan. If you are currently having trouble paying your mortgage each month, it may not be a good idea to borrow more money. You first should try to negotiate a payment plan with your current lender that will allow you to get back on track with your existing mortgage payments.
- *Be sure that you understand exactly how much your loan will cost you.* Ask the lender the total amount you will have paid by the time you make your final loan payment. You can also find this information on the Truth-in-Lending statement that the lender must give to you within three business days of applying for a loan. Be wary of loans that have a large balloon payment at the end. These loans often have relatively low monthly payments that do not add up to enough to pay off the entire loan, so at the end of the loan term they require a big lump-sum payment. If you have difficulty making this large payment, you may end up having to refinance your loan at a time when interest rates are high. In the end, you may be in a worse situation than you were when you first got the loan. It is always important for you to look at more than just the monthly payment; look at the fees, including any prepayment penalties, the type of loan and how the rate changes if applicable, etc.
- *Be sure that the loan fees are reasonable.* Loans should not include unnecessary costs like prepaid single-premium credit or **mortgage life insurance** or credit disability insurance. These fees will increase the overall cost of your loan and result in higher payments than necessary.

Understanding Your Options: Mortgage Refinance and Home-Equity Loans

- *Be sure that you understand your loan documents before you sign them.* Before you borrow any money, it is important that you understand exactly what you are getting and how much you are paying. You have the right and the responsibility to ask the lender to explain any fees, terms or conditions as many times as you need to until you understand everything. Consider contacting a local housing counselor or licensed attorney whom you trust to review the loan documents in order to ensure that you are comfortable with the loan.
- *Do not leave any spaces blank on your loan application.* Someone could fill in blank spaces later and you could end up being responsible for something you did not knowingly agree to. Look over everything you sign to make sure all your information is correct, including your income, debts and credit. Fill in any blanks with “Not Applicable,” or draw a line through the space and initial it.
- *Be wary of any lender that contacts you by telephone, e-mail, mail or in person.* Try to ignore television advertisements, door-to-door salespeople or unsolicited mail from companies that are offering to refinance your loan or give you an equity loan. You should be particularly cautious of lenders who say that bad credit, low credit scores or no credit is not a problem. Remember: if it sounds too good to be true, it probably is.
- *Talk with a trusted source before you borrow against your home equity to pay off consumer debt.* Before you borrow against your home equity to pay off credit cards and other debts, contact an accredited consumer credit counseling agency. These agencies will help you determine whether borrowing against your equity is the best way to pay off your debt. These agencies can help you develop a debt consolidation plan that best meets your needs.
- *Be sure that you get the best loan that you can qualify for.* Just because a loan is not predatory does not mean that it is a good loan for you. It is critically important to shop around to ensure that you are getting the most for your money and the type of loan that meets your needs. For instance, if you need funds to pay for a new roof, make sure that the new loan will give you enough money pay for the roof. Never agree to a loan that you cannot afford to repay. Be sure that you understand the total cost of your loan, not just the monthly payment. Make sure that you are an informed shopper and that you get the help you need to make the best choice for you.
- *Remember that you can change your mind.* You have the legal right to change your mind before you sign the loan documents and up to three days after loan closing. If there is something you do not understand or feel comfortable with, do not sign your loan documents. Call a trusted housing counselor or licensed attorney for assistance before you agree to something you do not understand or are not comfortable with.

What To Do If You Think You Have Been Victimized

If you think that you have been a victim of abusive or predatory lending, it is important to let others know. This could help save your home and can help other people like you as well.

If you think you have been preyed upon:

- Contact your local office of consumer affairs or your state attorney general. You can find their numbers in the phone book (under your state in the white pages) or on the Internet.
- Report your experience to the Federal Trade Commission (FTC). The FTC can be reached toll-free at (877) FTC-HELP (382-4357).
- Contact your local legal services or legal aid organization. Its staff can review your loan documents before or after you sign them. They can provide you with guidance if you would like to file a complaint against your lender. You can find the contact information for these local agencies in the phone book or on the Internet.