

# How to spot predatory lending

Buying or refinancing your home may be one of the most important and complex financial decisions you'll ever make. It's worth the time and effort to contact your local NeighborWorks® organization or other nonprofit financial counselor to learn how to avoid costly mistakes.

## Common predatory lending tactics include:

- ▶ Selling properties for much more than they are worth using false appraisals.
  - ▶ Encouraging borrowers to lie about their income, expenses, or cash available for down payments in order to get a loan.
  - ▶ Knowingly lending more money than a borrower can afford to repay.
  - ▶ Charging high interest rates to borrowers that are not based on their credit history.
  - ▶ Charging fees for unnecessary or non-existent products and services.
  - ▶ Pressuring borrowers to accept higher-risk loans such as balloon loans, interest only payments, and steep pre-payment penalties.
  - ▶ Targeting vulnerable borrowers in need of cash due to medical, unemployment or debt problems.
  - ▶ Convincing borrowers to refinance again and again when there is no benefit to the borrower, but severe losses to home equity are accrued.
  - ▶ Using high pressure sales tactics to sell home improvements and then finance them at high interest rates.
- Tips to avoid a predatory loan:**
- ▶ Shop for a lender and compare costs. Be suspicious if anyone tries to steer you to just one lender.
  - ▶ Beware of fees greater than 3 or 4 percent of a home mortgage loan amount that strip equity from your new home.
  - ▶ Get information about the prices of other homes in the neighborhood. Don't be fooled into paying too much.
  - ▶ Hire a properly qualified and licensed home inspector to carefully inspect the property before you buy. Determine whether you or the seller will be responsible for paying for the repairs.
  - ▶ Do not make a false statement on your loan application, such as overstating your income, the source of your down payment, failing to disclose the nature and amount of your debts, or how long you have been employed.
  - ▶ Avoid prepayment penalties touted by subprime lenders that trap borrowers in high-rate loans, which too often leads to foreclosure.
  - ▶ Be wary of promises to refinance the loan to a better rate in the future.
  - ▶ Remember that a low monthly payment isn't always the best deal. Look at the TOTAL cost of the loan.

