



Being a Responsible Homeowner

Predatory Lending

Being a Responsible Homeowner: Predatory Lending

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In recent years homeowners across the country have become victims of a new, more aggressive form of lending. The problem has become so severe that government organizations such as the Department of Housing and Urban Development (HUD) have adopted the term “Predatory Lenders”.

Predatory lenders are lenders that purposely target individuals of low to moderate income who may have difficulty getting loans from other sources. These lenders have been known to sell loans with outrageous fees, rates and misleading terms. Unfortunately, the result of these lender’s actions can be financially damaging. Some families lose equity in their homes, while others lose their home to foreclosure.

Predatory lenders and sub-prime lenders are often considered to be the same, however, they are not. Many sub-prime lenders serve a useful purpose. Sub-prime lenders make loans at higher interest rates to individuals who do not have good credit and who need to borrow money. There is, however, a group of sub-prime lenders who also are predatory lenders because of the methods they use.

Some characteristics of predatory lenders include:

- Having the potential to commit fraud by forging documents.
- Steering people with good credit into loans with high interest rates.

- Putting people in loans with hidden balloon payments. The homeowner believes the loans are paid off after several years of payments, when actually more than 80 percent of the loan is unpaid.
- Adding a prepayment penalty to the loan. This fee discourages people from paying off their loan early and sometimes prevents people from refinancing.
- Requiring the addition of credit insurance to the loan. This insurance is expensive, financed over the lifespan of the loan, and does not offer many benefits to the consumer. It can include credit life and disability insurance.
- Practicing flipping techniques. Flipping is used to encourage repeated financing of a loan. Every time the loan is refinanced new fees are added to the loan in addition to the original fees.

Protecting yourself from predatory lenders

Predatory lenders work very hard to make consumers think they are friends. These lenders are willing to manipulate consumers, use aggressive tactics to deceive them and be dishonest to qualify customers for a loan.

Things predatory lenders might say:

- “No Credit! No Problem!”
- “Easy, quick cash!”
- “You have wasted my time.”

- “How can you pass up this great deal?”
- “This is the only time I will be able to qualify you for this loan.”
- “I have spent so much time trying to help you get this loan.”
- “Do you need additional money to take a vacation, pay for school expenses, make home improvements, etc?”
- “I can consolidate all your expenses into one loan and give you a lower monthly payment.”
- “Don’t worry about the high interest rate. We can always refinance your loan and lower your interest rate.”
- “Just make your payments on time for a couple of months and then you will be seen as a good customer. That way we can get you a lower interest rate.”

Things predatory lenders might do:

- Review closing documents FAST.
- Inflate the appraised value of the property to give a larger loan.
- Encourage customers to lie about their income to qualify them for a larger loan.
- Distract attention from the loan during the closing by talking about the borrower’s family, children, job, etc. to get the borrower to sign the loan and leave.
- Not report a payment history to the credit bureau unless a loan is in default.
- Do just about anything to gain trust from the borrower, to get the borrower to do exactly what they want.
- Close a loan when time is limited and the customer really does not have time to question the process.
- Close a loan in-house (at their office), rather

than at a title loan company. In this situation, the borrower does not have a neutral party to fully disclose all terms and conditions of the loan.

- Purposely drive around neighborhoods, find people who might have their mortgage paid off and target these homeowners to consolidate their loans.
- Partner with service providers (such as tax refund offices) and target the individuals who are willing to take risky loans (such as tax refund anticipation loans). The lender will then call the customer and offer a new mortgage loan option that consolidates all their bills.
- Target desperate homeowners who are at risk of foreclosure on their house and offer the homeowner a new mortgage at a very high interest rate, knowing that they will probably foreclose at a later date.
- Partner with home improvement contractors to offer home-owners a one-stop shop on home improvements including the work and financing.
- Forcefully market their products, use high-pressure sales tactics and aggressively encourage the customer to close on the loan.
- Eliminate a customer’s right to sue for abusive lending practices by making them sign an arbitrary clause.

To protect yourself from predatory lenders:

- Shop around for a loan provider. If you want insurance for the loan, go to your insurance agent.
- Do not give into high-pressure sales tactics.
- Do not look only at the monthly payment – consider the TOTAL cost of the loan.

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- Do not trust promises to refinance your loan at a later date.
- Do not be afraid to question the loan officer.
- Only sign for the loan when you are 100 percent comfortable with the loan terms. If you do not understand the loan terms you should contact a friend that may be more familiar with the loan terms or a local non-profit housing agency.
- Never make an impulsive decision on whether a product is right for you.
- Do not sign:
 - o Any blank documents that the lender promises to complete at a later date.
 - o Anything you do not understand and feel comfortable with such as the loan terms.
 - o If the loan officer is not willing to answer all of your questions.
- Watch out for some these items:
 - o Prepayment penalties – Penalty for repaying your loan early.
 - o Unreasonably high rates – You will not know if you have a high rate or not, unless you shop around.
 - o Balloon payments.
- Protect yourself by saying:
 - o NO!
 - o I am not interested.
 - o I am not ready to make a decision.
 - o If I have to make a decision today, I am out of here
- Sign the Truth-in-Lending document. Always refer to this document to get the true annual percentage rate, finance charge, amount financed and the total amount of payments. Refer to the sample.

Where to go if you are a victim of predatory lending:

- The New Mexico Attorney General
111 Lomas NW Ste 300
Albuquerque, NM 87102
(505) 222-9000
- Fair Lending Center
1500 Walter, SE, Rm. 212
Albuquerque, NM 87102
(505)242-4755
- ACORN
411 Bellamah NW
Albuquerque, NM 87102
(505) 242-7411
- NACA National Associates of Consumer Advocates
1730 Rhode Island NW, Ste 805
Washington, DC 20036
(202) 452-1989

The best way to avoid predatory lenders is to plan ahead and keep your credit in good standing. Predatory lenders seek people who have not planned for their financial future. If you do not have good credit, you may need to use a sub-prime lender, not a predatory lender, to qualify for a loan. The key is to start today building your credit. Prepare yourself now for the times you will need money. For additional information refer to the Managing Money module.

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*This resource is one in a series on **Being a Responsible Homeowner** which include:*

Getting to Know Your New Home

Maintenance Repairs, Home Improvements
Universal Design for Easy Living
When and How to Hire a Professional

Financial Issues for Responsible Homeowner

Financial Responsibilities
Predatory Lending

Managing Financial Difficulties

Foreclosure

Legal Responsibilities

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