

## Predatory Lending; a sad story

In a Columbus neighborhood, many are finding that the American dream can quickly turn into a nightmare. It is in this neighborhood of white picket fences that you will see a number of large orange stickers in windows declaring the homes "property of the federal government." What happened you ask? Many of the homeowners were qualified by the builder and financed by an FHA (federally insured) loan. Some of the buyers were qualified for much more than they could afford based on inflated or unsubstantiated incomes, some were approved under a three year buydown that allowed them to pay a portion of the interest the first two years only to be hit with the entire rate the third year. This caused some of their payments to increase by as much as 30%. Those that remain are left with a home that is worth much less than they paid for it and a mortgage payment that they can barely afford. As for the builder, well, they have more than likely moved onto another "development" and rest easy at night knowing that even if the loans are defaulted on, they will still get their money..... One way or the other.

**BEWARE:** Take control of your finances. Figure out what you can afford **BEFORE** you shop for a home. If someone tries to convince you that you can afford more than you know you can, think long term and check all the terms of the agreement, **BEFORE** you sign anything.



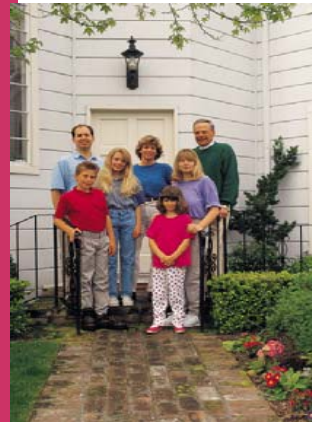
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a predatory mortgage loan?**

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**Remember:**

If it sounds too good  
to be True...

**It Probably IS!!!**



# What is a Predatory Loan?

A predatory loan is a dishonest loan. Predatory loans harm borrowers by making it difficult or impossible to keep up with their payments. Predatory Lenders prey on people who are unfamiliar with the banking system. They target seniors, minorities, or anyone whose credit makes it hard for them to get a traditional bank loan. Predatory loans take advantage of borrowers through a variety of abusive practices such as:

- Targeting people of color, elderly and disabled people for high cost loans.
- Charging excessive interest rates and higher fees.
- Approving a loan without considering a person's ability to repay the loan.
- Convincing borrowers to refinance frequently (or flip) the loan.
- Carrying terms that make it difficult for the borrower to refinance later.
- Keeping secret the true costs and terms of the loan.

## Possible signs of a predatory loan:

- Total bank fees greater than 2% of the total loan amount.
- Balloon payment (a lump sum due at the end of the term of the loan.)
- Pre-payment penalties.
- Loan is based on home equity rather than the borrower's income.
- Credit Life insurance is added to the loan.

## How can you avoid a predatory loan?

Finding the best loan is no different than making any other purchase.

- Be a smart shopper.
- Talk with number of different lenders and compare their offers.
- ASK QUESTIONS!
- **Remember:** before you sign, know the bottom line. If you are refinancing you are always free to refuse to sign the documents and to walk away from the table if you don't like the terms of the offer.



## Tips to help you avoid Becoming a victim

- Take a free homebuyer or financial literacy class.
- Fix your credit before you apply for a loan.
- Shop around. Compare loan rates and fees.
- Be sure to get all quotes in writing.
- Have someone you trust ( a family member, friend or attorney) review the documents before you sign them.
- Don't give in to pressure tactics. Don't sign unless you understand the terms of the loan.
- Think twice about financing the cost of credit insurance into your loan.
- When you use your home as collateral for a loan, be extra careful! A bad loan can put your home in jeopardy.



## Questions to ask your lender:

- What is the best rate I can get today?
- Is the rate fixed or adjustable?
- What is the total monthly payment, including taxes and insurance?
- What is the term (length) of the loan?
- Is there an application deposit? What is it and how much of it is refundable?
- What is the annual percentage rate?
- Is there a balloon payment due on the loan?
- Are there any pre-payment penalties? What are they and for how many years are they in effect?
- Does the interest rate increase if my payments are late?

## Loan closing check list:

- Make sure that you receive your good faith estimate within three days of submitting your loan application.
- Contact the Escrow agent and request copies of your completed documents at least one day before your appointment to sign the loan papers.
- Visit a local housing counselor, attorney, trusted family member, or friend to review all documents. Make sure you understand all the terms of the loan.
- Check your promissory note to make sure the interest rate is correct, there are no pre-payment penalties or balloon payments. Also make sure if you have an Adjustable Rate Mortgage (ARM) that you receive an ARM disclosure rider. This will explain how often your rate can increase, how much your payment can increase, when the rate goes up, and what the maximum interest rate and monthly payments are.
- Review your HUD-1 settlement statement: Verify all fees. Be sure each fee on the HUD-1 statement also appears on the Good Faith Estimate. If the fees are substantially different, DO NOT SIGN any documents unless you agree with the new terms.