



## Avoiding Predatory Lenders

Predatory lenders are those lenders placing consumers in loan products with significantly worse terms and/or higher costs than loans offered to similarly qualified consumers in the region for the primary purpose of enriching the originator and with little or no regard for the costs to the consumer.

Information provided below can help you to determine if a lender is predatory.

Some of the possible signs of predatory lending:

- If a lender is saying guaranteed approval or no income verification, that is a indication that the lender is not concerned about whether the applicant can afford the loan payment.
- Make sure fees are typical of those in your market. Because these costs can be financed as part of the loan, they are easy to disguise or downplay. On competitive loans, fees are negotiable. It is common for home buyers to pay only one percent of the loan amount for prime loans. By contrast, a typical predatory loan may cost five percent or more.
- High-risk adjustable rate mortgages with payments that rise significantly after a short introductory period are seldom appropriate for families who already have had problems repaying other loans. Home buyers should also avoid a large payment.
- A lender who deliberately delays the closing may be waiting for the commitment on a reasonably-priced loan to expire.
- Inflated appraisals can allow for excessive fees to be included in the loan, resulting in the borrower owing more to the bank than the home is worth.
- Prepayment penalties can make it hard for borrowers to refinance and take advantage of a lower-cost loan.
- These loans may be split into two mortgages, with one having a much higher cost. Home buyers should be sure they can afford the payments.
- An ethical lender or broker will always require you to sign key loan papers, and they will never ask you to sign a document dated before the date you sign it.



- Predatory lenders often charge extremely high interest and fees that are added into the total amount of the loan the borrower must repay. These lenders charge what they can get away with, not a fair amount based on the credit history of the borrower.
- Sometimes home buyers are offered a new loan or a refinance of an existing loan that seems to meet all of their needs--only to find that interest rates and fees have changed when they get to the closing table. Agreeing to last-minute changes can cost thousands of dollars and result in a loan they just can't afford.
- Adjustable rate loans are popular in today's market, but many that seem affordable are likely to have steep cost increases in the future. Avoid "payment shock" by considering whether you can pay for the loan both now and in the future.
- Too many homeowners are persuaded to refinance their mortgage, sometimes repeatedly, when there is no real benefit. Even when a family receives some cash from a refinance, the gains should be weighed against the costs of excessive fees and a higher loan amount.
- Some families who receive subprime loans could qualify for a much more affordable home loan. Predatory lenders use aggressive sales tactics to steer families into unnecessarily expensive loan products.
- Check out lenders with the Better Business Bureau, government websites, or other consumer groups. How long has the lender been in business? Have consumers filed many complaints? Does the lender belong to a trade association with ethics requirements for its members?
- Refuse to participate in transactions that may be fraudulent.
- Share predatory lending "horror" stories with regulators, other consumers, REALTORS®, counseling groups, housing professionals, and the media.
- Make contracts subject to the homebuyer receiving approval from a lender for a fair and affordable loan.
- Avoid unnecessary contract extensions that could cause the lender's loan commitment to lapse.
- Get educated on the value of your home by asking your REALTOR® for a comparative market analysis.
- Review the HUD-1 closing statement before closing. Upon request, home buyers have the right to see this information 24 hours before the loan closing.



- Report possible violations to appropriate federal, state and local officials.

[www.realtor.org/home\\_buyers\\_and\\_sellers/how\\_to\\_avoid\\_predatory\\_lending#problems](http://www.realtor.org/home_buyers_and_sellers/how_to_avoid_predatory_lending#problems)