

What You Should Know About Predatory Loans

Despite the collapse of the mortgage market, predatory lenders are still active in the marketplace. To help you avoid predatory mortgage loans, the Fair Mortgage Collaborative has created the following information sheet, which explains how to identify a predatory loan, how to identify a predatory lender, and what precautions to take to avoid being victimized.

How to Identify a Predatory Loan

The basic definition of a predatory loan is unfair because it costs the borrower more than is necessary. A predatory lender typically uses deception to convince the borrower to accept a high cost mortgage.

A loan is predatory if you could get a similar loan from another lender for a lower interest rate, or for lower fees, or without unnecessary and expensive features. A predatory loan can cost you tens of thousands of dollars more than a similar non-predatory loan.

Some of the features of a predatory loan are:

1. **High fees:** All lenders charge fees to close a loan. However, predatory lenders typically charge much more than other lenders, and will probably not disclose or explain them to you in a way that will enable you to understand what you are paying.
2. **Fees for services you don't want or don't need:** Sometimes a predatory loan will include fees for products or services that you don't want or need, such as certain forms of life insurance.
3. **Prepayment penalties:** Predatory loans often include a prepayment penalty, which forces you to pay an additional fee if you pay down your loan before it is due. You should consider pre-payment penalty only if receive a clear benefit for accepting it, such as a lower interest rate, that you clearly understand, and that you would not receive if you did not accept it.
4. **A monthly payment you cannot afford:** Predatory loans often cost more than the borrower can afford. As a general rule, the amount you spend each month on your mortgage, your property insurance, and your property taxes combined should not total more than one third of your gross income (your income before taxes).
5. **Future increase in monthly payments:** Predatory loans often change the monthly payment amounts dramatically— your payments start low when you take out the loan, but increase 15 – 40% after a brief “low interest” period.
6. **“Balloon” payments.** This means the entire loan comes due at the end of a short term, which means you will have to refinance and incur all these loan fees again. Again, as long as the consumer is getting an “additional benefit” for accepting these terms, and fully understand what they mean, this can be something to consider.

How to Identify a Predatory Lender

You can often spot a predatory lender because they do one or more of the following activities:

1. Offers you a predatory loan: If a lender offers you a loan with any of the features listed above, there is a good chance they are a predatory lender.
2. Does door-to-door sales: Predatory lenders often use door-to-door strategies. Not all door-to-door salespersons are untrustworthy, but you should be very careful of anyone who comes to your door and offers to help you refinance your home.
3. Works with a contractor: Many predatory lenders work with home improvement contractors, who do the door-to-door outreach. Be very careful of lenders recommended by contractors, especially contractors who show up at your door.
4. Changes interest rate or fees: If the interest rate or fees are higher at the loan closing than the rate or fees that you were initially quoted, be extremely careful. Refuse to continue with the closing if the change is large and there is no good reason for it.
5. Encourages fraud: Any lender who suggests that you misrepresent your income or anything else is probably a predatory lender. Do not do business with them.

Tips to Avoid Predatory Loans

You may qualify for a better loan than you believe. Take your time searching for a loan, and keep the following advice in mind.

1. [Bullet omitted here](#)
2. If the lender offers a high priced loan and says that the price is due to your credit, you should consult a Housing Counselor before taking out a loan.
3. Shop around and get “pre-qualified”. Ask for the “best offer” the lending organization believes you would be qualified for. Don’t take a loan from the first lender who makes you an offer. Get offers from several different lenders and compare the details, including interest rate, fees, term, and monthly payment. Check for any of the “predatory” features listed above.
4. Do some background research. Your newspaper and the internet provide information about mortgage rates. [You can use the “Mortgage Rate Guide” provided on the website of FMC’s subsidiary, Fair Loan Certification, Inc. \(www.fairloancertification.com\), to check current mortgage rates in your area.](#) If you are buying a home, check the prices of other homes in the neighborhood by consulting a newspaper or a free website such as zillow.com or redfin.com.
5. Ask for full information about your loan in writing at the time of application. Ask for copies of loan documents as early as possible before loan closing to allow you, and your attorney, to review them. You should have at least a week to read and review your

documents. If you do not understand your documents, find someone you trust to help explain them. Ask questions about anything you do not understand.

6. Don't be rushed into a decision. If a broker or lender tries to pressure you into making a decision that you are not comfortable with, don't hesitate to say "no." This may be the biggest financial transaction of your life. Mortgage lending is extremely complex and even experts can be fooled. Take your time and ask questions.
7. Obtain your own lawyer. The lender will be represented by an attorney. If possible, make sure that you have your own attorney who represents your interests. Make sure that your attorney is someone who is trustworthy and has no connection to the lender. Your attorney should be able to help explain anything in the loan documents that you do not understand.
8. Don't leave blank spaces: When you sign loan documents, do not leave any blank spaces that could be filled in later by someone else.