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How to Avoid Predatory Lending

Most mortgage lenders and brokers have your best interests in mind. However, there are "predatory lenders" that may try to take advantage of you.

Although predatory lending is not defined by federal law and states define it differently, this type of lending usually involves loans with terms you can't meet, no matter how good the deal sound, and practices that strip away the equity in your home. Dishonest or "predatory" lenders do exist and engage in lending practices that increase the chances that a borrower will lose a home to foreclosure. Beware especially of those who make high-risk second mortgages.

Who do predatory lenders target?

Predatory lenders target elderly and low-income homebuyers, minorities and women, people with less-than-perfect credit, and people who know very little about home loans and mortgages.

These lenders usually tell you that you can get loans with very low monthly payments, refinance your existing mortgage, or take out a loan or second mortgage to help pay for expenses like medical costs and home-improvement work. There are legitimate loans that can help with these things but be sure to research your lender and ask questions. A reputable lender will not mind answering all your questions. If in doubt, go over the loan with a trusted advisor before signing anything.

How can you spot a predatory lender?

Predatory lenders usually offer loans with high interest rates; broker fees, unnecessary costs like pre-paid credit life insurance, and unaffordable repayment terms.

Be suspicious of anyone who offers you "bargain loans," whether they mail or email you an offer, call you on the phone, or come to your door. Avoid promises of "No Credit? Bad Credit? No Problem!" And beware of offers that are only "good for a very short time."

Homeowners receive many refinance offers in the mail saying they are "pre-approved" for credit based on the equity in their homes. Borrowing against your house may seem attractive when you are struggling to pay your mortgage, but if you can't make your current payments, increasing your debt will make it harder to keep your home. Avoid lenders who encourage you to borrow more than you need or more than the value of the home. Beware of terms that change at the last minute or offer next-day approval based on prepayments or up-front fees. Beware especially of those who make high-risk second mortgages. Other abusive practices include:

- Making a mortgage loan to an individual who does not have the income to repay it,
- Charging excessive interest, points and fees, and
- Repeatedly refinancing a loan without providing any real value to the borrower.

Beware of scams

- Equity skimming: In this type of scam a "buyer" approaches you offering to repay the mortgage or sell the property if you sign over the deed and move out - usually leaving you with the debt and no house. Signing over your deed does not necessarily relieve you from paying the loan.
- Phony counseling agencies: Charging for counseling that is often free of charge. If you have any doubt about paying for such ser vices, call HUD-approved foreclosure housing counseling agency toll free before you pay anyone or sign anything.
- Do not sign anything you do not understand. It is your right and duty to ask questions.
- Information is your best defense against becoming a victim of predatory lending, especially for a desperate homeowner.

Helpful tips to protect yourself

1. Educate yourself. If you are a first-time buyer, attend a homeownership education course. HUD and a number of non-profit counseling agencies offer them – some are even self-paced online courses.
2. Check references. Be sure to know who you are working with. Before selecting a real estate professional or lender, get refer-

ences and do your homework. Be wary if anyone is trying to dissuade you from comparing lenders and costs.

3. Know your market. Know the value of the neighborhood and check what comparable houses are selling for – protect your self from paying too much for your home.
4. Get a home inspection. Again, get references and be wary if someone is steering you in the direction of just one home in spector. Hidden problems with the house can cost you thousands – it is worth it to spend a little and save a lot.
5. Be truthful. Don't let anyone talk you into making false or incorrect statements on your application paperwork. They may tell you it isn't a big deal but it is – its fraud and can result in legal action. In addition, lying may enable you to buy a house you can't afford and you may struggle to keep up with the payments and risk foreclosure.
6. If you don't understand, don't sign. Don't be afraid to ask questions or take the unsigned document to someone you trust to help you understand it better. Never sign blank documents – you will be bound by whatever you sign. Don't let someone tell you, "we'll fill that in later." Instead cross through blanks or write N/A in the spaces.
7. Understand the costs of the loan and what is covered. Your loan can include the actual amount you're borrowing, Private Mortgage Insurance, and closing costs. Make sure your loan is not "packed" with premium credit insurance add-ons that you don't understand or want (like credit life insurance).

Where to report suspected predatory lending

Homeowners can visit the Stop Mortgage Fraud website or call (800)-348-3931 to get information on what steps to take to file a complaint. Homeowners who call can also receive a booklet containing information found on the website.