DON’T GET HOOKED by PREDATORY LENDING

Making smart homebuying and home repair decisions

Predatory lending is fraudulent, deceptive and unfair lending practices. It takes place by drawing on borrowers’ vulnerabilities and fears. Predatory lending is frequently directed to those with challenges making informed decisions, specifically older adults, families with limited means, minorities, immigrants, individuals with bad or no credit, and individuals with disabilities. It hurts borrowers with debts they cannot repay, homes they cannot afford, repossessions or foreclosure, and damaging credit history.

Predatory lending may initially hide in appealing disguises that attract the very victims who should be most wary. They can appear to be their victims’ allies against hostile financial forces: “No credit, no problem,” “We finance everyone,” “We’ll take care of everything for you!” The best thing to remember is, “If it sounds too good to be true, it probably is!”

The best way to avoid predatory lending is through knowledge. Although there are laws designed to protect consumers against this damaging practice, the practice still exists, and knowing what to look for in home mortgage or repair loans is key.

ELEMENTS OF PREDATORY LOANS
Predatory loans come in all shapes and sizes, but there are certain elements that are typically found in them. Those include:
- High interest rates
- Unusually high "points," fees, and other closing costs
- Requiring credit life insurance with loans
- Mandatory arbitration clause favoring lenders
- Loans for much higher amounts than required
- Refinancing lower-interest rate loans at higher rates
- Loans that turn "unsecured" debts into "secured" mortgage debts
- Prepayment penalties
- Inflated or fraudulent appraisals

PREDATORY LENDING BEHAVIOR
Predatory practices also come in all shapes and sizes, but here are some recognizable predatory behaviors:
- Being contacted by companies at home, without having requested a call
- Being asked to sign blank forms that will be filled in later
- Willingness of company representatives to falsify loan applications, particularly information about income
- “High-pressure” sales presentations with “one-time” offers
- Planning loan closings at places other than in lender offices (such as in the home, in a vehicle, at a restaurant, etc)
- Other names ("phantom" signers frequently unknown to borrowers) are added to documents to make loans seem more affordable
- Changing loan terms at closing
- Itemizing duplicate services then charging separately for them ("unbundling")
- Forging important, key loan documents
- “Flipping” of home loans, meaning repeated refinancing of mortgage loans. There are reasons to refinance, but frequent refinancing offers may indicate a predatory practice

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