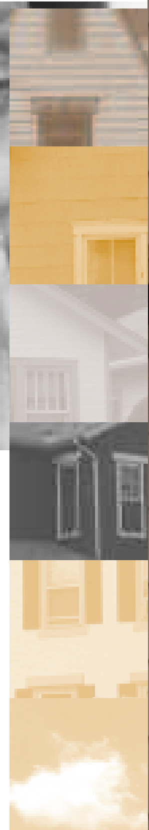


Do you think you have a client who is a victim of predatory lending? You can help by having them call the
Miami Valley Fair Housing Center at 937-223-6035.

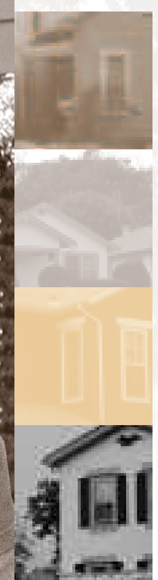
This brochure was realized as a result of a partnership between the National Association of Realtors®, the Dayton Area Board of Realtors®, and the Miami Valley Fair Housing Center, Inc.

REALTOR®

Help your clients
AVOID PREDATORY LOANS

What is predatory lending?

Predatory lending is a terrible lending practice that strips equity out of homes and puts homeowners at risk of losing their home by putting them into inappropriate loan products. Predatory loans harm borrowers by making it difficult or impossible to keep up with payments. Through false promises, unnecessary fees and excessive interest charges borrowers can see their credit ruined and lose their home to foreclosure. Your clients—especially the elderly, minorities, the disabled, and those with low income or damaged credit—need to be educated about predatory lending and be extra careful when choosing their loans. As a Realtor®, you can help by talking to your clients about predatory lending and encouraging them to make informed decisions about financing.



What are the problems connected to predatory lending?

There are many problems associated with predatory lending practices. Here are a few.

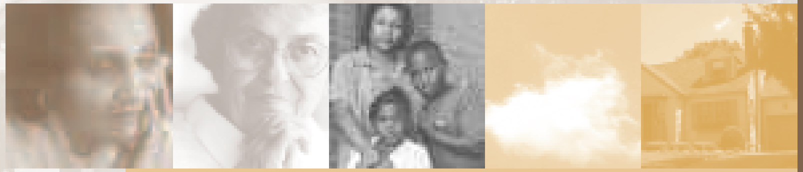
High interest/fees Predatory lenders will often charge extremely high interest rates and fees that are financed into the loan. This increases their profit unfairly and makes the loan very expensive. Adding these large fees also takes away equity when homeowners refinance.

Broken promises Many borrowers are offered lower monthly payments, a good interest rate, and a loan that meets all of their needs—only to find that everything has changed once they get to closing. They are then pressured to complete the loan by signing the paperwork, even when they feel uncomfortable. Agreeing to last-minute changes could cost thousands of dollars and lead to other problems that put the home at risk of foreclosure.

The balloon payment Many borrowers are unfamiliar with the financing feature called a balloon payment. Predatory lenders often arrange mortgages with balloon payments so that monthly payments are low, but at the end of the loan, the borrower still owes most of the principal. Payments that have been made for 5, 10 or even 15 years, are applied mostly toward interest. But this is not clearly explained to the borrower, or they are convinced to take the loan in hopes they will be better able to afford the balloon payment at a later point in time.

Loan flipping Borrowers need to be careful about refinancing to get extra cash or take a vacation—both of which predatory lenders market to their customers. Loan flipping involves repeated refinancing of the mortgage by rolling the balance of the current loan into a new loan. Each time the loan is “flipped” the borrower is charged more fees, the amount of the loan is larger, and the mortgage will take longer to pay.

Predatory lending can be avoided!



What makes a loan predatory?

Predatory loans take advantage of borrowers with a variety of abusive practices. While some of the practices or features of a particular loan may be reasonable or legal in certain circumstances, predatory lenders use their advanced knowledge of the mortgage market to put borrowers who typically have less knowledge and sophistication about the mortgage market into loans that are designed to fail. Here are some of the methods used by predatory lenders:

- Targeting people of color, elderly, disabled people, and those with moderate-to-low incomes for high-cost loans, when they could qualify for lower-cost loans
- Charging excessive interest rates, higher fees, and adding unnecessary insurance
- Using inflated appraisals to justify larger loan amounts
- Changing true costs and terms of the loan at the last minute, usually at the closing table
- Approving a loan without considering a borrower's ability to repay
- Convincing borrowers to refinance frequently (called "flipping" the loan), without any net tangible benefit to the borrower, (i.e., a reduction in interest rate or length of the loan)

Possible signs of a predatory loan

- "Guaranteed approval" regardless of borrower's financial status
- The closing date is unreasonably extended
- Inflated appraisal
- Appraisal that doesn't match the comparative market analysis
- Total bank and/or broker fees greater than 2% – 3% of the loan amount
- Balloon payment (a lump sum due at the end of the term of the loan)
- Prepayment penalties that extend longer than 12-18 months
- Loan approval is based on home equity rather than the borrower's ability to repay, income
- Credit life insurance added to the loan and paid in one lump sum at closing

Encourage your clients to shop around for a loan

Realtors® develop relationships of trust with their clients. You can help clients avoid predatory loans by telling them to shop for a loan and ask these important questions:

- What is the best interest rate today?
- Is the loan's interest rate fixed or adjustable?
- What is the term (length) of the loan?
- What are the total loan fees?
- What is the total monthly payment, including taxes and insurance?
- Is there an application deposit? If so, what is it, and how much of it is refundable?
- Are there any pre-payment penalties? If so, what are they and for how long are they in effect?

If the loan is an Adjustable Rate Mortgage (ARM):

- What is the initial rate?
- How long will that rate stay in effect?
- How often can the rate change?
- Does the interest rate increase if the borrower's payments are late?
- What is the rate and payment caps (limits) each year, as well as over the life of the loan?
- Could the borrower qualify for the maximum interest rate permitted under the loan terms now?
- Can an adjustable rate loan be converted (changed) to a fixed rate without doing a new loan?

Other solutions Realtors® can use to avoid predatory lenders

- Share predatory lending "horror" stories with clients, Realtors®, and other housing professionals
- Research lenders through the Better Business Bureau; confirm the length of time in business, and the lenders' membership in a reputable trade organization such as the Mortgage Banker's Association
- Refuse to participate in fraudulent transactions
- Encourage clients to make contracts subject to specific financing parameters
- Encourage back-up offers
- Encourage clients to refuse unnecessary contract extensions
- Do a comparative market analysis and share it with your clients
- Review the HUD-1 settlement statement **before** closing—a red flag should go up if you don't have it to review 24 hours before the closing
- Report possible violations of professional standards to the Ohio Division of Commerce, the Ohio Attorney General's office, or any other appropriate governing bodies or licensing/regulating agencies