What is predatory lending?

Predatory lending is a terrible lending practice designed to take away your home equity. If you agree to a loan based on the equity you have in your home, you could easily be putting your home at risk. Through false promises and outrageous fees, predatory lending can ruin your credit and lead to foreclosure. Homeowners—especially the elderly, minorities, those with low income or damaged credit—should be extra careful when choosing their loans. These borrowers are often targeted with abusive and exploitive practices. Home financing is a complicated world of tough language and difficult-to-understand practices. Don't risk your home—be careful.

What are the problems connected to predatory lending?

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 your loan very expensive. Adding these large fees also takes away your equity—the difference between what you owe and the value of your home.

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 your home at risk.

The balloon payment
Predatory lenders often arrange mortgages so that monthly payments are low, but at the end of the loan, you still owe most of the principal—the original amount you borrowed. Payments that have been made for 5, 10, or even 15 years, are applied mostly toward interest. You would have to take out a new loan to pay the final ‘balloon payment,’ or face foreclosure and the loss of your home.

Loan flipping
Be careful when lenders offer to refinance your loan so that you can get extra cash or take a vacation! 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.
How can predatory lending practices be identified?

You can spot predatory lending practices by paying careful attention in a few key areas.

- **Cash or other incentives**
  The old saying tends to be true: if it sounds too good to be true, it probably is. Don't get lured in by big cash promises.

- **Income padding**
  If you've been asked to lie about your monthly income, beware. This is not a sign of a reputable lender.

- **Balloon payments**
  Check your loan terms to make sure a single, large payment isn't due at the end of your term.

- **Inflated appraisals**
  Don't be flattered by an appraisal that says your home is worth more than you think it is. Predatory lenders often use this practice to make room for more profit.

- **Large prepayment penalties**
  Predatory loans often have large fees assessed if a borrower decides to pay off the loan before the term is finished.

- **Signing over your deed**
  Sometimes borrowers are asked to sign the deed to their house over to the lender who explains this is a temporary measure to avoid foreclosure. Reputable lenders will almost never ask you to sign over your deed.

- **Unnecessary insurance**
  Make sure you need the insurance you have on your loan. Be careful that insurance is not added to your loan without it being mentioned or explained.