Department of Commerce

Division of Financial Institutions

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What is Predatory Lending?

Predatory lending occurs when a mortgage broker or lender persuades a borrower to enter into a mortgage loan that has unreasonably high interest rates and fees and does not serve the borrower's best interest. These loans often lock borrowers into unfair loan terms and cause severe financial hardship or default.

To determine whether a loan is predatory in nature, ask yourself these questions:

- Does my past credit history justify the high rate and fees charged?
- Is the loan being made on the basis of my ability to repay the loan and not solely on the value of my property?
- Have the loan terms been fairly represented and explained to me?
- Does the type of loan and the loan services provided meet my needs and interests?

If you answered **"NO"** to any of these questions, there is a possibility the loan is not in your best interest or is predatory in nature. To avoid falling prey to these abusive practices, be a smart and informed shopper.

Identify Lending Tricks

There are many ways an unscrupulous broker can take advantage of a consumer. The following list includes the most common predatory lending tricks:

Trick #1:
Selling the monthly payment happens when mortgage lenders or brokers only show borrowers the monthly payment, which does not include interest rates, any final balloon payment, or the total cost of the loan. Moreover, the monthly payment may not include the cost of property taxes and homeowner's insurance, which can add hundreds of dollars a month to a homeowner's expenses.

Trick #2:
Flipping by repeated financing occurs when a predatory lender contacts a borrower and offers the borrower a lower interest rate if he or she agrees to refinance. When the borrower agrees to refinance, the lender charges for all the loan origination fees, broker fees, points, and other closing costs. Ultimately, the borrower does not save any money in the refinance. Borrowers who wish to refinance should compare the cost of refinancing to potential savings, compare several lenders to find the best offer, be wary of companies that initiate contact with potential borrowers over the phone, and avoid refinancing several times over a short period of time.

Trick #3:
Growing the debt is done through debt consolidation and home improvement schemes. For example, a predatory lender might convince a borrower with small consumer debts, like car loans or credit card bills, to borrow money by refinancing and adding the consumer debt to his or her mortgage. The downside of this scheme is that there is a risk that non-payment of the consolidated debt could result in foreclosure and loss of the home. Similarly, a door-to-door salesperson might urge a homeowner to make expensive home improvements so the predatory lender may refinance the whole mortgage and tack on the cost of the repair, additional points, loan origination fees, broker fees, and other closing costs.

Trick #4:
With **equity stripping**, lenders depend less on a borrower's income or ability to repay the loan and more on the value of the home. This trick may include saddling borrowers with more debt than they can handle, tricking a borrower into a loan with high rates and fees, and overcharging or charging twice for routine services. If the borrower cannot pay and the home goes into foreclosure, the lender simply finds another borrower to take over the loan. Sometimes borrowers are encouraged to overstate their income in order to qualify for the loan. This is illegal, and cannot change the fact that the loan payments remain beyond the borrower's ability to repay.

Trick #5:
Over-inflating the appraisal happens when the lender makes sure that the value of the property will likely pay off the loan in case the borrower defaults. If a first appraisal is not high enough to cover the loan, a more "friendly" appraiser comes in to take a second look and increase the value of the house. When the house is over-appraised, lenders can charge higher fees because of the bigger loan and borrowers have a hard time refinancing because of the over-appraised property.

Trick #6:
Insurance packing is a highly profitable trick whereby mortgage lenders push borrowers to buy unnecessary credit insurance such as credit life insurance, credit disability insurance, and credit unemployment insurance. Consumers should shop around to see if other insurers offer better terms or determine if existing insurance coverage already accomplishes the same purposes.

How to Avoid Predatory Lending

- Only deal with Ohio licensed mortgage brokers or those operating under and subject to federal regulations. To see if a broker or lender is licensed by the State of Ohio, contact the Division of Financial Institutions at 1-866-278-0003 or **www.com.state.oh.us/fiin**.
- Read and get copies of everything you sign in connection with your mortgage. Do not sign forms with blank areas.
- Make sure the rate and terms quoted by your lender and/or broker are in writing and are very close to those presented at closing. Beware of "bait & switch" tactics whereby the lender or broker makes an offer with one set of terms and then pressures you to sign a loan with more expensive rates and hidden costs.
- Do not shop based solely on lower monthly payments.
- Know your credit rating and qualify for the loan you deserve. There is no reason to pay high rates and fees if you can qualify for better terms.
- Borrow only what you need, and make sure your monthly payments are affordable. If the escrow of taxes and insurance is part of your old payment, be sure it is included in your new payment when comparing price savings.
- Do not fall for scams from out-of-state businesses claiming to arrange mortgage loans for an advance fee or advance purchase of special loan insurance. Sending a money order or electronic transfer will likely be the last time you see your money.