

## The Facts About Predatory Lending

More and more people are buying homes, getting a home equity line of credit, or refinancing a mortgage, and with it, predatory lending is on the rise. In order to make an informed decision about who to borrow money from, there are some important facts everyone should know.

Although all of us can be at risk from a predatory lender, they target in particular those having financial difficulties, minority homeowners, women and the elderly. One of the biggest signs of a predatory lender is someone who makes promises to you that seem too good to be true. If it seems too good to be true, it's a pretty good bet that it probably is. But there are many other signs of unscrupulous lending practices. Knowing about them will help you avoid becoming a victim.

People often go to predatory lenders thinking that they are their only options; that they won't be able to get a traditional loan. But approximately fifty percent of those who borrow from a predator, would have qualified for a lower cost loan from a bank or other lender. High pressure tactics are the stock in trade of the predator. They don't allow the borrower the time to think, or shop around. Don't make that mistake, ask questions and be informed. Get information about both the loan and the lender.

Be sure you find a lender who will answer all of your questions, and be available to work with you. A reputable lender will be happy to give you whatever information you need, answer your questions and give you time to think about the details of the loan. A good lender will be easy to contact and gives you personal, responsive service. They want to ensure that you understand the loan process, and that any loan you obtain is the right one for your particular situation.

Once the papers are signed, predatory lenders are notoriously hard to reach. The last thing you want is someone working with your finances who will be unavailable to work with you.

Some of the other signs of predatory lending are:

**High interest rates:** Although predatory lenders claim their rates are lower than everyone else's, be sure to read all the fine print. National statistics show that their rates are actually higher than other lenders.

**Excessive points, late charges and prepayment penalties:** Again, predatory lenders often charge these fees even though they tell you there are no points. The paradox of predatory lenders is, they often convince people to use their services by saying there are no hidden fees, when there are. When you lock the price of your loan, the lender is committed to the rate and points, but not to fees. This can leave you open to a nasty surprise at closing.

Prepayment penalties mean that if you want to refinance, you will be paying a penalty, and often at a high price, to do so.

**Asset-based lending:** Predatory lenders may give you more money than you can afford based on the equity you have in your home, and not on your ability to repay it. They may also encourage you to exaggerate what your income is or get inflated appraisals on your home to make sure you can get a large loan. Be careful! This is illegal, and you just might lose your home.

**Misrepresenting the loan:** Beware the lender who may offer one set of terms and then change them at closing. If this happens, walk away from the closing. Protect yourself by knowing and understanding the terms of your loan.

**Loan Flipping or Multiple Refinancing:** While refinancing your home may be a smart way to save money, it doesn't *always* make sense. Predators may encourage you to borrow more money than you need, or really afford to pay back. If a lender suggests that you refinance repeatedly and in a short space of time, ask them to explain the numbers to you to make sure it really is a wise choice. Never borrow more money than you can afford; you could lose your home.

**Refinancing restrictions:** If a loan stipulates that you cannot refinance with anyone but the original lender, it is probably a loan you don't want.

While this can sound daunting, there are honest, reputable lenders out there, who have your best interests in mind. When possible, a local lender may be best. Local lenders have a reputation in the community to maintain, and you can actually meet with them if necessary. Ask friends for referrals, do your homework, ask questions, make sure you understand the terms of the loan and that you know in every case how much not only the original loan amount will be, but how much you will pay over the term of the loan. All of these steps can help you decide what the best course is for your particular situation.

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