

ESOP

Empowering and Strengthening Ohio's People



Predatory Lending Practices

Predatory lending is designed to set borrowers up with loans they can not repay. The loans often steal equity from the home and include terms that lead to foreclosure and bankruptcy. Brokers and lenders often use subprime loan pricing.

Warning signs of a predatory loan:

1. **Steering-** charging high, subprime interest rates to borrowers with credit good enough to qualify for prime rate loans. May be based on race or nationality.
2. **Lending without ability to repay-** Loans made based on equity in the house, rather than using borrower's income to consider ability to repay.
3. **Loan Flipping-** Frequent refinancing of the loan to pay off principal balance, pre-payment penalties and closing costs are included in the new balance.
4. **High Fees-** Broker fees charged to the borrower in amounts greater than 5% of the total loan amount.
5. **Bait and Switch-** Borrower agrees to one set of loan terms, but at closing is pressured into signing documents with different, predatory terms.
6. **Home Improvement Scams-** Home improvement contractors arrange for home mortgage, including the cost for home improvements. Borrower is often charged for incomplete or shoddy work.
7. **Adjustable Rate Mortgages (ARM's)-** Borrower's interest rate rises, which increases payment, typically about every 6 months. The payment quickly becomes unaffordable to the borrower.
8. **Balloon Loans-** A very large lump sum is due after a certain amount of years. Loan is often unaffordable and the borrower is forced into foreclosure, or to refinance.
9. **Packing of overpriced insurances-** Financing credit life, disability, or unemployment coverage into the amount of the loan, without option or benefit to the borrower.
10. **Prepayment Penalties-** Huge fees charged when borrower pays off loan early or refinances.
11. **False Appraisals-** Appraisers assessing value of the home as more than it is actually worth. Borrower is left with no equity and is typically unable to refinance.
12. **Falsifying income-** In order to qualify borrower for the loan, broker may falsify borrower's income or down payment amount paid by the borrower.
13. **Negative Amortization-** Loan is structured so monthly payment does not cover accrued interest, which means the outstanding loan balance increases each month. At the end of the loan term, borrower may owe more than originally borrowed.

If you feel you have been a victim of one of these tactics, or want to learn more, call ESOP at 216-361-0718 or email esop@esop-cleveland.org.

ESOP is able to assist with the following lenders: ASC, Ameriquest/ Argent/ ACC Holdings, Countrywide, Charter One, CitiFinancial, CitiResidential, EMC, JPMorgan Chase, Litton Loan Servicing, Ocwen, Option One, Select Portfolio Servicing (SPS), Third Federal, Wilshire, Wells Fargo