

DON'T BE A VICTIM OF PREDATORY LENDING

Purchasing your first home? Refinancing your current home? Need a home equity loan?

Protect yourself from dishonest, predatory lenders. Some mortgage and home equity lenders try to pressure consumers into signing loan agreements they cannot afford or simply are not in consumers' best interests. Be careful! You could end up further in debt or even lose your home.

Predatory lenders use slick and deceptive sales tactics to convince you to sign a loan contract before you have had the chance to review the paperwork and do the math. Almost anyone can fall prey to these abusive lending practices. You can protect yourself by being aware of the common warning signs of predatory lending:

- ▶ Watch for exceedingly high interest rates and inflated fees.
- ▶ Beware of "Bait and Switch" tactics where a lender initially offers one set of terms, but then pressures the borrower into signing a contract with more expensive terms and hidden fees.
- ▶ Avoid loans from door-to-door salesmen and pitches for home equity loans related to unsolicited home improvement contracts.
- ▶ Look out for mail and television ads that claim "No job? No credit? No problem! You can still qualify for a loan based on your home equity." Remember, if it sounds too good to be true ... it probably is.
- ▶ Walk away from high-pressure sales tactics to sign a loan contract right away. If the offer is good today, it should be good tomorrow after you have reviewed the contract and consulted a knowledgeable financial advisor.
- ▶ Single premium credit insurance, which pays the lender if the borrower defaults or dies, is significantly more costly than regular life insurance, and the need for it is debatable. Lenders contend that low-income borrowers often can't qualify for traditional life insurance because of either poor health or poor credit, so insurance can be valuable. However, by financing 30 years of premiums into one lump sum, paid up front, the consumer pays thousands of dollars in interest.

WHEN GETTING AN APPRAISAL, WATCH FOR SOME WARNING SIGNS:

- ▶ Any consumer who is told that the equity in their home will be enough to cover any or all down payment provisions of a loan application may be about to get a fraudulent appraisal.
- ▶ A consumer who is told that another appraisal is needed because the first one was too low or something else was wrong with it may be about to receive a fraudulent appraisal.
- ▶ When more than one appraiser contacts you to make an appointment to inspect your home. This may indicate that the loan officer has called several appraisers and will use and pay the one giving the highest appraisal on the property.
- ▶ When an appraiser comes to your home to do an inspection and appears very disinterested in the home and doesn't ask reasonable questions. Chances are that a predetermined value has already been set on the home.
- ▶ Before any appraisal is complete, be wary of statements made by the lender that there will be no problem getting a loan due to the value of your home. This is a sign of a potential problem.
- ▶ Make sure the appraiser identifies herself or himself and gives you a business card stating who they are and how to contact them.



UNDERSTAND YOUR CONTRACT

When purchasing a new home or refinancing an existing mortgage, consumers must make important financial decisions. Be sure that you are well informed and aware of all your options. Listed below are several terms that are frequently used in the lending industry. Knowing them is the first step to understanding a loan contract and making an educated borrowing decision. Before you sign any loan document, be sure to review the following terms in the contract:

Annual Percentage Rate (APR)

This is the cost of your credit as a yearly rate. When shopping for a loan compare the APR offered by various lenders.

Finance Charge

The finance charge is the dollar amount the credit will cost you. It is based on the APR, the amount borrowed and the length of the loan. Beware of inflated fees!

Amount Financed

This is the dollar amount of the credit that is provided to you by your lenders.

Points

Points are fees you pay to a lender to obtain a real estate secured loan. These prepaid finance charges are not refundable.

Total Number and Exact Dollar Amount of Each Payment

This will help you determine if the loan is within your budget. It is important to also consider other possible contract terms, such as "balloon payments," when examining the cost and affordability of the loan.

Payment Date

This is the date the payment must be received by the lender.

Collateral

Collateral is property that is used to secure a loan. If a borrower defaults on the loan, the lender may take the collateral. In a real estate loan your home is your collateral.

Prepayment Penalties

This is a fee that must be paid if you pay off the loan prior to maturity.

DO:

- ✓ Make sure the lender is licensed and check whether any complaints have been filed against the lender by calling the Kentucky Office of Financial Institutions at (800) 223-2579.
- ✓ Make sure you can afford to repay the loan. If you are not sure, then call or visit a credit counselor or speak to someone you trust.
- ✓ Look carefully through the entire loan package and ask for an explanation of fees, charges, terms, and conditions.
- ✓ Read every word of the loan agreement.
- ✓ Always get copies of your written loan documents at the time you sign them.
- ✓ Shop around. Find out what other lenders are offering and compare for the best price. Ask whether they would be willing to waive or reduce any fees or charges and compare.
- ✓ Understand your right to cancel the transaction. The law allows you three business days to cancel the loan.
- ✓ Be aware that some lenders require a mandatory arbitration clause. If this is in your contract you may give up your right to go to court if you have problems with the contract.
- ✓ Seek legal advice to answer any questions you might have.

DONT:

- ✓ Deal with an unlicensed lender.
- ✓ Give in to high-pressure sales tactics.
- ✓ Remember, if an offer is good today, then it should be good tomorrow.
- ✓ Sign any papers with blank spaces or incorrect information.
- ✓ Agree to inflate your earnings or provide false information to qualify for a loan and do not sign unless all the promises made to you are in writing.

If you have questions regarding predatory lending or would like to request additional quantities of this brochure at no cost call:

1-800-223-2579

or write:

Office of Financial Institutions
1025 Capital Center Drive,
Suite 200
Frankfort, KY 40601
www.kfi.ky.gov

NEED A SPEAKER?

This office can provide you with a speaker. If your interest is trust companies, predatory lending, investments, financial planning, banking, consumer awareness, or if you would like to let your audience understand what we do and how we do it; we are fortunate to have several staff members who are willing to share their knowledge. There is no cost for speakers or educational materials.

PHONE: 1-800-223-2579

FAX: 502-573-3390

The Environmental and Public Protection Cabinet does not discriminate on the basis of race, color, national origin, sex, age, religion or disability, sexual orientation, gender identity, ancestry or veteran status, and provides, on request, reasonable accommodations including auxiliary aids and services necessary to afford an individual with a disability an equal opportunity to participate in all services, programs and activities. To request materials in an alternative format, contact the Office of Financial Institutions. Hearing and speech-impaired persons can contact the agency by using the Kentucky Relay Service, a toll-free telecommunication device for the deaf (TTY). For voice to TTY, call 1-800-648-6057. For TTY to voice, call 1-800-648-6056.



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Kentucky Office of Financial Institutions

