



AVOIDING PREDATORY LENDERS WHAT YOU SHOULD KNOW

- 1. Be Cautious.** Watch out for offers of “Bargain loans”. Don’t trust the “No Credit? No Problem!” promise. Be careful of limited time offers and suspicious of people you didn’t contact first – legitimate companies don’t show up on your doorstep.
- 2. Check It Out.** Shop around for money for repairs, medical expenses or bill consolidations. Compare rates and costs. Call the Better Business Bureau, the Department of Consumer Protection or the Banking Commission to see if there have been complaints. Ask the lender for names of other customers.
- 3. Never Make an Immediate Decision.** Avoid promises of low rates if you act now, or immediate approval if you pay some money today. Don’t be misled by those who ask for money up-front to pay the first payment or the expenses of the “guaranteed” loan.
- 4. Ask Questions.** Know exactly what the lender is offering, exactly what the terms are and what the total cost will be. Ask questions if you don’t understand something you’ve been told. Be aware that credit insurance doesn’t protect you – only the lender. Understand the monthly payments, how long you will be making payments, and the Annual Percentage Rate.
- 5. Shop Locally.** Ask yourself “if I can’t get a local lender to give me the money, why is somebody who knows nothing about me willing to do it?”
- 6. Read Carefully Before You Sign.** Never sign anything you have not completely read, or do not completely understand. Assume that every piece of paper you sign is a contract. Before you sign a document, ask a lawyer or a trusted friend to go over it with you and be sure that there are no blank spaces or areas to be “filled in later”.
- 7. Avoid “Balloon” Payments.** These are loans that have very small payments for a while, but a very large “balloon” payment of the balance at the end of the loan. Some unscrupulous lenders will even ask you to pay the entire principal at the last payment, and offer to refinance when it comes time to make that payment. That kind of situation could be another opportunity to charge you more high fees and costs.

- 8. Know You Can Change Your Mind.** The Truth-in-Lending Act allows you to change your mind for ANY reason (or no reason at all) within three days of signing a contract in which you use your home as security.
- 9. Get Help if You are Victimized.** Contact the Department of Consumer Protection, the Banking Commission, the State Attorney General and the Federal Trade Commission. Let others know so these predators can be stopped from hurting someone else.

EXAMPLES OF PREDATORY LENDING PRACTICES

Steering – moving borrowers to a higher cost loan than is justified by the risk involved.

Broker Kickbacks – where the broker receives additional payment for originating a particular *type* of loan and the cost of that additional payment is put into the loan, resulting in a higher-priced loan than the borrower would otherwise qualify for.

High prepayment penalties – make it difficult for a borrower to refinance out of a predatory loan. Prepayment penalties should only be part of a loan when they offer a real benefit to the borrower.

Negative Amortization or Non-amortizing Loans – Negative amortization loans make payments low while adding debt to the end of the loan, so that the borrower owes more and more each month. Non-amortizing loans never build equity for the borrower.

Balloon Payments – these amortize a loan over a long period, so that payments are a reasonable amount, but require that the entire outstanding balance be paid at a date much sooner. For example, a borrower may secure a 30-year amortization with a 5-year balloon. The borrower then would be required to pay to the lender the entire balance of the loan in the 5th year.

Packing – is the term for adding excessive fees for services or overpriced products into the loan itself.

Stripping – after making a loan to a borrower, the lender comes back in a few months and offers to refinance the loan at a slightly lower rate. The costs, however, add money to the overall loan amount and “strip” the remaining equity from the property.



Identifying a Predatory Lender

Predatory or abusive lenders do the following:

- Use high-pressure or scare tactics to convince you to “act now”.
- Discourage you from asking lawyers or relatives to review documents or be present for the application.
- Use false or inaccurate appraisals as the basis of determining how much you can borrow.
- Knowingly lend more money than you can reasonably afford to repay.
- Encourage you to lie about income, assets and liabilities, or to pretend you have downpayment money that doesn't really exist.
- Prey on people who are in serious need of cash for emergencies.
- Take advantage of people who have little experience with the real estate market, who don't understand a lot of English, or who are elderly and alone.
- Make loans based on a your nationality or race or appearance and not on credit worthiness.
- Often work in partnership with unlicensed contractors to provide high interest loans for poor or fraudulent work.
- Sometimes work with unscrupulous real estate agents who sell substandard properties at inflated prices.

GETTING HELP

Federal Trade Commission

complaint form

[https://rn.ftc.gov/pls/dod/wsolcq\\$.startup?Z_ORG_CODE=PU01](https://rn.ftc.gov/pls/dod/wsolcq$.startup?Z_ORG_CODE=PU01)

CT Department of Consumer Protection

Dept. of Consumer Protection, 165 Capitol Avenue, Hartford, CT 06106

Toll Free: 1-800-842-2649 **Local:** 860-713-6300 **Fax:** 860-713-7239

<http://www.state.ct.us/dcp/>

HOME IMPROVEMENT GUARANTY FUND. This is a pool of money created by annual assessments of registered contractors that can be used to help satisfy aggrieved homeowners. <http://www.state.ct.us/dcp/higuaranty.htm>

Better Business Bureau Handling New Haven Complaints

complaint form

<http://www.connecticut.bbb.org/commoncomplaint.html>

Email: info@ctbbb.org **Phone:** (203)269-2700 **Fax:** (203)269-3124
821 N. Main Street Ext. Parkside Building Wallingford, CT 06492 -2420

Other Sources

New Haven Legal Assistance, 426 State Street, New Haven CT (203) 946-4811

The Jerome Frank Legal Services Organization @ Yale
133 Wall Street, New Haven, CT. (203) 432-4800

ACORN: (877) 552-2676

Email: <http://www.acornnews@acorn.org>



Borrow With Confidence

*What you Need to Know To Make a Smart Decision
About Buying or Refinancing Your Home
To Keep from Getting Ripped Off*

*A partnership of
City of New Haven Livable City Initiative
The Fannie Mae CT Partnership Office
ACORN Housing
The New Haven Homeownership Center*