

Idaho Legal Aid Services, Inc.

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Signs of Predatory Mortgage Lending ^[1]

The Center for Responsible Lending has created the following "8 Signs of Predatory Mortgage Lending", which you may find below or on their website:

<https://www.responsiblelending.org/issues/8-signs-predatory-mortgage> ^[2].

Eight Signs of Predatory Mortgage Lending

Sign 1 - Big Fees

"Points" or "discount points" are the lender's fee for making the loan. Generally, a charge of three points—3% or less of the loan amount—is a good deal, including such necessities as an appraisal and title insurance. Get your credit score in advance and research typical fees in your area.

Sign 2 - Penalties For Paying Off Early

A "prepayment penalty" requires you to pay a steep fee before refinancing. The penalty period can last several years and cost thousands of dollars.

Sign 3 - Inflated Interest Rates From Brokers

Brokers can make more money if they boost the interest rate above the lender's actual charge. Ask if your broker will be paid a "yield-spread premium" – a financial reward lenders pay for inflated interest rates.

Sign 4 - Steering And Targeting

Predatory lenders often target senior citizens and people of color to place them in unnecessarily expensive loans. Don't respond to ads that say bad credit doesn't matter, and be especially wary of lenders or brokers who contact you or those who try to rush you into decisions.

Sign 5 - Adjustable Interest Rates That "Explode"

Beware of adjustable-rate loans that can rise significantly, especially if it isn't possible for the interest rate to go lower, only higher. Make sure you understand the worst-case scenario for future payments. And don't count on a future refinance to rescue you from an unaffordable loan.

Sign 6 - Promises To Fix Problems With Future Refinances

Predatory lenders are notorious for selling bad deals by promising that they will refinance the loan later. If a loan stretches you too much now or in the future, just say no.

Sign 7 - Repeated Refinances That Drain You

Repeated refinances—"flipping"—mean you lose more money in points and fees every time. Don't be tempted by a bit of cash when you might end up owing even more on your house, losing valuable equity, and paying more than necessary.

Sign 8 - Not Counting Taxes And Insurance

Know in advance whether your monthly mortgage payment will include the costs of property taxes and insurance (i.e., whether the lender has established an escrow account for these costs). Unscrupulous lenders make house payments seem artificially low by not counting all costs—which you will be required to pay.

Printed: October 26, 2020

<http://www.idaholegalaid.org/node/2696/signs-predatory-mortgage-lending>

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