



IDAHO LEGAL AID SERVICES FAIR LENDING NEWSLETTER

What is the Fair Lending Advice Line?

With a grant from the Department of Housing and Urban Development, Idaho Legal Aid Services, Inc. has implemented a fair lending advice line project to help homeowners and transactors know their lending rights under the Fair Housing Act and other state and federal laws. The project includes three main components: a fair lending advice line, fair lending informational materials, and workshops or clinics to educate consumers about fair lending practices.

Idaho Legal Aid Services, Inc. (ILAS) operates the Fair Lending Advice Line. Consumers, housing counselors, and lenders, etc., may contact the Fair Lending Legal Advice line by calling Idaho Legal Aid Services, Monday through Friday, 9:00 a.m. to 12:00 p.m., M.S.T., (208) 345-0106 in Boise calling area, or statewide toll-free 1-866-345-0106, or (TTY) 1-800-245-7573. En español llamada gratis estatal, 1-866-954-2591 o 454-2591 en la área local de llamadas en Caldwell or on the web at www.idaholegalaid.org. If you are a senior, you may also call the Idaho Senior Legal Hotline toll-free 1-866-345-0106 or 345-0106 in the Boise calling area, Monday and Tuesday 9:00 a.m. to 12:00 p.m. and 1:00 p.m. to 3:00 p.m., M.S.T. and on Wednesdays from 1:00 p.m. to 3:00 p.m. M.S.T. Visit our web site at idaholegalaid.org for fair lending and fair housing information and materials. E-mail the Fair Lending Advice Line at fairlending@idaholegalaid.org.

What kind of help can I get from the Project?

The toll-free advice line is also available to persons regardless of income. You may call this advice line to obtain advice and assistance regarding:

- Fair lending questions
- Violations of fair lending laws
- Fair lending fact sheets and other informational materials
- A referral to other sources for fair lending and home buyer education information
- A referral to other organizations that may help you with fair lending enforcement
- Information and schedules of fair lending workshops and training opportunities conducted by the Fair Lending Project: homebuyer education, questions during your loan, foreclosure prevention, modification assistance (how to write an effective hardship letter, how to escalate your case to obtain a modification), short sale information, post-foreclosure issues.
- Referrals to housing counselors and attorneys with expertise in pre-lending through post-foreclosure issues.
- The staff of the Fair Lending Advice Line Project will personally assist all who request information or assistance on the advice line

Whom does the Project serve?

The Fair Lending Advice Line Project serves residents of the State of Idaho who have a house in Idaho, regardless of income.

Who are the staff members of the Project?

- Zoe Ann Olson, Project Director
- Linda Johnston, Project Assistant
- Advice Line Attorneys Zoe Ann Olson and Sunrise Ayers
- Staff attorneys and/or paralegal staff in each of the seven service offices throughout the state

How do I contact the Project?

There are three ways you can contact the Fair Lending Advice Line Project:

- Toll-free advice line: 1-866-345-0106 or 345-0106 in the Boise local calling area
- **En español** llamada gratis estatal, 1-866-954-2591 o 454-2591 en la área local de llamadas en Caldwell.
- Contact Project staff by e-mail at fairlending@idaholegalaid.org.

Idaho Legal Aid Services Fair Lending: Predatory Lending Abuses

Predatory Lending: What is it?

Predatory lending is the practice of preying on, or taking advantage of, an individual or group of people that may have a difficult time buying or refinancing a home such as people who may be poor, uneducated, and elderly or in the protected classes (race, religion, national origin, color, disability, familial status, gender).

What is the issue?

- Certain groups of people are denied their dream of owning a home.
- These same groups are forced to accept lending that is subprime.
- Homeowners are at risk of losing their homes or financial security.

Predatory Lending: Who is at risk?

- Low-income families
- Minorities
- Seniors
- Persons with disabilities

What is a prime loan?

"In conventional lending [prime loans], you're dealing with borrowers with high credit scores, solid income and single-family residences -- basic [well qualified] borrowers..."

What is a Sub-prime loan?

"...in subprime, you're dealing with people who can't prove any income, have low [credit] scores, have had bankruptcies, have way too much credit or need higher loan to values on their property."

--Charlie Cartwright, LenderBase Corp.

Subprime loans provide credit to persons with past credit problems, insufficient credit history, previous bankruptcy, spotty employment, and others that do not meet credit standards in the prime (conventional) loan market.

Subprime lenders grade customers the same way that elementary school teachers grade children. Depending on an applicant's credit score, debt-to-income ratio, ability to verify income and other variables, a lender or broker assesses a letter grade that typically ranges from "A+" down to "D." The loan officer then charges a rate appropriate to that category. Because the distinctions between categories are often slight, borrowers can move up the scale without much effort.

For example, lenders tend to grade people based on how many times they were 30 or 60 days late with their mortgage payments in the past year. Having two "30-day late" payments might push them into the "A-" category while having just one would keep them in the "A" zone. As a result, a customer who was late twice, but one of the late payments was 11 months ago, can improve a notch by just waiting a few extra days to borrow. By doing so, that customer could save a half a percentage point, or 50 basis points, on the interest rate, according to pricing sheets wholesale lenders send to mortgage brokers.

Subprime Loans and Minorities:

From 1993 to 1998, the number of subprime refinancing loans increased ten-fold. Subprime loans are three times more likely in low-income neighborhoods than in high-income neighborhoods. Subprime loans are five times more likely in black neighborhoods than in white neighborhoods. Racial disparity is so great that homeowners in high-income black areas are twice as likely as homeowners in low-income white areas to have subprime loans. –HUD No. 00-75

Subprime Loans and Seniors:

Seniors become targets because:

- "Cash-poor" even though "asset-rich"
- Limited financial resources (income)
- Limited knowledge about financing alternatives
- Large or unexpected bills for medical expenses or repairs on their older homes

Predatory Lending: Who might engage in predatory lending?

(Not an exclusive list.)

- Appraisers
- Mortgage brokers/bankers
- Home improvement contractors
- Lenders/Bankers
- Real estate agents
- Savings and loans
- Credit unions

Predatory Lenders—Abusive

practices include: (Not an exclusive list.)

- ***False appraisals.***

By selling properties for more than they are worth using false appraisals.

- ***Encourage false information.***

Encouraging borrowers to lie about their income, expenses, or cash available for down payments to get a loan.

- ***Lend more than can be repaid.***

They knowingly lend more money than a borrower can afford to repay.

- ***Charge more interest based on race or national origin.***

It is abusive to charge high interest rates to borrowers based on their race or national origin and not on their credit history.

- ***Charge for unneeded products and services.***

Charging fees for unnecessary or nonexistent products and services.

- ***Pressure borrowers to accept higher-risk loans.***

Pressuring borrowers to accept balloon loans, interest only payments, and steep pre-payment penalties.

- ***Target vulnerable borrowers.***

Target vulnerable borrowers to cash-out refinance offers when they know borrowers are in need of cash due to medical, unemployment, or debt problems.

- ***Refinance again and again (called “flipping”).***

This practice strips homeowners’ equity from their homes by convincing them to refinance again and again when there is no benefit to the borrower.

- ***Encourage borrowers to sign blank forms.***

Lenders who encourage a borrower to sign blank forms could be trying to hide pertinent information regarding the loan that will be filled in after the document is signed.

- ***Single premium credit insurance.***

Credit insurance premiums should not be financed into the loan up-front in a lump-sum payment.

- ***High fees.***

Borrowers should not be charged excessive points and fees for conventional, FHA or VA loans. Please check with your Department of Finance or HUD if you have questions or a suspicion that you are being charged excessive points.

- ***Prepayment penalties.***

Loans should not include prepayment penalties because prepayment penalties trap borrowers in high-rate loans. These penalties lead to foreclosure too often and prepayment penalties are usually hidden, deferred fees that strip significant equity.

- ***Yield-spread premiums.***

These are fees that lenders rebate to brokers in exchange for placing a borrower in a higher interest rate than the borrower qualifies for. Brokers originate over half of all mortgage loans and a small number of brokers are responsible for a large percentage of predatory loans.

- ***Steering.***

Steering is encouraging a person’s choice of mortgage or loan based on race, familial status, color, disability or other protected class.

- ***Mandatory arbitration.***

Lenders should not allow clauses in the loan contracts that force the borrower into arbitration in the event of a dispute for wrongful practices.

- ***Pressure to refinance and charge high interest rates.***

Using high-pressure sales tactics to sell home improvements and then finance them at high interest rates.

- ***Flipping.***

Flipping of borrowers occurs through repeated fee-loaded refinancing. Lenders refinance subprime loans over and over, taking out home equity wealth in the form of high fees each time without providing the borrower with a net tangible benefit.

- ***Balloon payments.***

Balloon payments are a condition of a loan when a very large payment comes due a few years into the loan.

- ***Interest only loans.***

Interest only loans are a practice where the borrower's payments only cover the interest portion of the loan and not principle.

- ***Higher interest rates.***

Lenders should make sure that borrowers get the lowest-cost loan they qualify for.

- ***Debt shifting.***

Debt shifting is when unsecured debt is shifted into a secured mortgage.

- ***Recommend subprime loans.***

When lenders recommend subprime loans for people who qualify for conventional loans.

(For more information see www.responsiblelending.org or www.hud.gov)

What tactics do predators use?

- ***"This is your only chance."***

A lender or investor tells you that they are your only chance of getting a loan or owning a home. You should be able to take your time to shop around and compare prices and houses.

- ***"The Federal Housing Administration insurance protects you against property defects or loan fraud."***

You are told that the Federal Housing Administration insurance protects you against property defects or loan fraud – it does not.

- ***"Refinancing can solve your credit or money problems."***

You are told that refinancing can solve your credit or money problems.

- ***"You can only get a good deal on a home improvement loan if you finance with this lender."***

You are told that you can only get a good deal on a home improvement if you finance it with a particular lender.

Possible signs of lending abuses:

- ***House costs more than similar ones in the neighborhood.***

The house you are buying costs a lot more than other homes in the neighborhood, but isn't any bigger or better.

- ***Sales contract or loan document has blanks or false information.***

You are asked to sign a sales contract or loan documents that are blank or that contain information which is not true.

- ***Cost or closing terms are different.***

The cost or loan terms at closing are not what you agreed to.

Protect yourself:

- Educate yourself about home ownership.
- Interview real estate professionals.
- Find out about the prices of comparable homes.
- Have the property inspected.
- Shop for a lender.
- Read everything carefully and ask questions.
- Watch that the cost doesn't increase.
- Don't be persuaded to make false statements.
- Don't be persuaded to borrow more than you can repay.
- Don't sign a blank document or a document containing blanks.
- Don't make false statements about your intention to occupy.

12 Tips on Being a Smart Consumer

1. Before you buy a home, attend a home ownership education course offered by the U.S. Department of Housing and Urban Development (HUD)-approved, non-profit counseling agencies.

2. Interview several real estate professionals (agents), and ask for and check references before you select one to help you buy or sell a home.

3. Get information about the prices of other homes in the neighborhood. Don't be fooled into paying too much.

4. Hire a properly qualified and licensed home inspector to carefully inspect the property before you are obligated to buy. Determine whether you or the seller is going to be responsible for paying for the repairs. If you have to pay for the repairs, determine whether or not you can afford to make them.

5. Shop for a lender and compare costs. Be suspicious if anyone tries to steer you to just one lender.

6. Read everything carefully and ask questions. Do not sign anything that you don't understand. Before signing, have your contract and loan agreement reviewed by an attorney skilled in real estate law, consult with a trusted real estate professional or ask for help from a housing counselor with a HUD-approved agency. If you cannot afford an attorney, take your documents to the HUD-approved housing counseling agency near you to find out if they will review the documents or can refer you to an attorney who will help you for free or at low cost.

7. Be suspicious when the cost of a home improvement goes up if you don't accept the contractor's financing.

8. Do NOT let anyone persuade you to make a false statement on your loan application, such as overstating your income, the source of your down payment, failing to disclose the nature and amount of your debts, or even how long you have been employed. When you apply for a

mortgage loan, every piece of information that you submit must be accurate and complete. Lying on a mortgage application is fraud and may result in criminal penalties.

9. Do NOT let anyone convince you to borrow more money than you know you can afford to repay. If you get behind on your payments, you risk losing your house and all of the money you put into your property.

10. Never sign a blank document or a document containing blanks. If information is inserted into the loan document by someone else after you have signed, you may still be bound to the terms of the contract. Insert "N/A" (i.e., not applicable) or cross through any blanks.

11. Be honest about your intention to occupy the house. Stating that you plan to live there when, in fact, you are not (because you intend to rent the house to someone else or fix it up and resell it) violates federal law and is a crime.

12. Make sure that your mortgage payment is no more than 30% of your net income. Make sure you include all of your expenses in determining the 30%.

What can you do?

Contact the following: Consumers as well as housing providers and lenders, may contact the Fair Lending Legal Advice line by calling Idaho Legal Aid Services, Monday through Friday, 9:00 a.m. to 12:00 p.m., M.S.T., (208) 345-0106 in Boise calling area, or statewide toll-free 1-866-345-0106, or (TTY) 1-800-245-7573. En español llamada gratis estatal, 1-866-954-2591 o 454-2591 en la área local de

llamadas en Caldwell or on the web at www.idaholegalaid.org.

If you are a senior, you may also call the Idaho Senior Legal Hotline toll-free 1-866-345-0106, or 345-0106 in the Boise calling area Monday and Tuesday 9:00 a.m. to 12:00 p.m. and 1:00 p.m. to 3:00 p.m., M.S.T. and on Wednesdays from 1:00 p.m. to 3:00 p.m. M.S.T.

Visit our web site at www.idaholegalaid.org for fair lending and fair housing information and materials. E-mail the Fair Lending Advice Line at fairlending@idaholegalaid.org.

For fair lending discrimination and fair housing complaints also contact:

U.S. Department of Housing and Urban Development (HUD)
1-800-669-9777 -or- 1-800-927-9275 (TDD)

Intermountain Fair Housing Council
(208) 383-0695 in Boise -or- 1-800-717-0695 (toll-free)

On the Web see:

- www.hud.gov
- www.responsiblelending.org
- www.idaholegalaid.org

If you would like to help support ILAS's Fair Lending Project, we need:

- Donations for interpretation/translation services
- Donations for paper for brochures, fair lending materials, etc.
- Attorney volunteers to assist consumers at workshops, negotiations, and in court
- Donations to obtain a new phone system
- Volunteers to assist with fair lending outreach and marketing



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