

WATCH OUT FOR PREDATORY LENDERS

Here are some warning signs:

- **Sounds too easy.** “Guaranteed approval” or “no income verification” regardless of borrower’s current employment, credit history, and assets. These claims indicate the lender doesn’t care about whether you can afford to make the payments over the long haul.
- **Excessive fees.** Higher lender and/or mortgage broker fees than are typical in your market. Because these costs can be financed as part of the loan, they are easy to disguise or downplay. On competitive loans, fees may be negotiable. It is common for home buyers to pay only 1 percent of the loan amount for prime loans. By contrast, a typical predatory loan may cost 5 percent or more.
- **Large future costs.** High-risk adjustable rate mortgages where the payment rises a lot after the “teaser rate” period are seldom appropriate for families who already have had problems repaying other loans. Home buyers should avoid large single “balloon” payments (a lump sum due at the end of the loan’s term).
- **Closing delays.** The lender delays closing, so your commitment on a reasonably priced loan expires.
- **Over-valued property.** Inflated appraisals that allow excessive fees to be included in the loan and result in the borrower owing more to the bank than the home is worth.
- **Barriers to refinancing.** Prepayment penalties that make it hard for a borrower to refinance in order to pay off a high-cost loan by taking advantage of a low-cost loan.
- **No down payment loans.** These loans may be split into two mortgages, with one having a much higher cost. Home buyers should be sure they can afford the payments.
- **Unethical document management.** Ethical lenders and brokers always require you to sign key loan papers, and never ask you to sign a blank document or a document dated before the date you sign.