

You are probably dealing with a predatory lender when...

You are encouraged to falsify your income, credit history, or other information requested on your loan application. These false statements may be used against you later to portray you as a partner in the scam, or to prevent you from complaining about it, and they may be used to provide you with a mortgage that you are not able to afford.

The sales agreement is contains false

statements. For example, an inflated false purchase price may be stated to create the appearance of greater equity in the property than is real.

You are asked to sign documents without reading them or to sign blank documents. These forms may be completed by the lender or broker later to include new terms to which you never agreed.

The terms of the deal are constantly changing. Due to a change in your "credit score" or some other reason, your interest rate and the fees increase. The lender or broker does not tell you the full story concerning what the loan will cost.

After the refinancing, you are told you will end up with "some money", but never how much. Often the amount is only a few thousand dollars on a very large loan.

Closing documents are not ready in advance of the signing, and you are told to sign all of the "standard forms" without reviewing them.



Free Legal Help

Legal Aid & Defender Assoc.
313.964.4111

Michigan Legal Services
313.964.4130

United Community Housing Coalition
220 Bagley, Suite 224, Detroit. 313.963.3298

If you do not qualify for free legal help you may also contact the Detroit Metropolitan Bar Association at 961-3545 for lawyer referral.

If you are refinancing because you are facing a mortgage foreclosure and you are low-income, you may also be able to obtain assistance up to \$2,000 from the state Department of Human Services.

Financial Assistance:

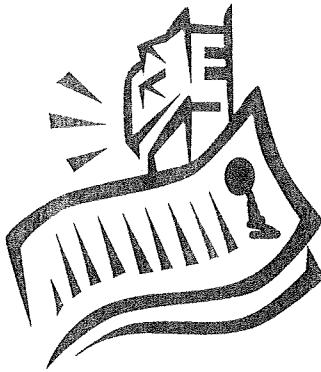
To locate the nearest state Department of Human Services office in Wayne County, call 313.456.1000. Help may be available through the State Emergency Relief (SER) program.

The legal resources listed above may also be able to refer you to other sources for financial help.

This brochure is for general informational purposes only and should not be substituted for attorney advice.

Michigan Legal Services
220 Bagley, Suite 900
Detroit, MI 48226
313.964.4130

Don't Be The Next Victim of Predatory Lending: Avoid Mortgage Scams



This guide is made possible with support from the Michigan State Bar Association. The Foundation's funding does not constitute an endorsement of content.

Introduction

Features to beware of in predatory loans

We are bombarded by daily offers to "consolidate debt", "get out of debt," "pay for a vacation," or "make needed home repairs". Loans with low "introductory" rates and "interest only" loans with low monthly payments are everywhere waiting to solve our problems.

If the deal is too good to be true, it is probably because it is not true. As bad as credit card and other consumer debt may be, the failure to pay it, will not cost you your home. When you "consolidate" unsecured (such as credit card) debt by obtaining a mortgage on your home, you risk losing your house if you are not able to make the payments.

"Introductory" interest rates, "interest only" loans and other tricks to keep your monthly payments to the mortgage company low initially will only provide a very short term cure for money problems.

"Introductory" interest rates usually only apply to the first few months of a 10 to 30 year mortgage. These are adjustable rate mortgages (ARM) and the interest can increase. "Interest only" mortgages assure that you will never own your home (as long as you pay only interest) and these loans usually require a balloon payment that forces you to either refinance in the near future or lose your home. Predatory loans are often recommended by brokers trying to locate an "investor" for your property. The broker does not make money unless you complete the loan. The broker, investor, title company and appraiser may all be tightly connected.

Predatory loans are not necessarily "illegal". Common features include:

High interest rates. These may be concealed with low introductory rates or you may be quoted a low rate initially and then learn that your "credit scores" are a problem forcing you to obtain a "high risk" loan carrying a higher interest rate.

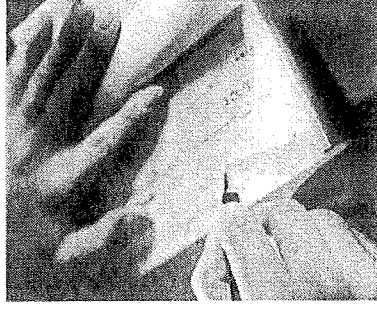


Initial low monthly payments. To encourage you to take the loan, you may be quoted very low monthly payments. You need to determine what the payments include and how long the low payments are locked in before you are too impressed with the initial payment amounts. You also need to know whether the payments are covering interest and principal or whether you will be facing a large balloon payment in the near future.

Taxes and insurance not included. To keep payments initially low, taxes and property insurance may not be included. These are costs which you are required to pay in addition to your mortgage payment. You should therefore calculate a monthly amount for these expenses to determine your true monthly payment obligation. If you do not pay your taxes and insurance, the lender will advance these payments for you, demanding repayment in higher monthly amounts leading to foreclosure.

Balloon Payments. To keep payments artificially low, a balloon payment may be required at some point during the loan. For example, a ten year loan might have 119 very affordable payments followed by a single (balloon) payment that is equal to the full amount of the funds borrowed. At the point that the balloon payment is due, the borrower is forced to refinance or lose the home. Balloon payments can work in situations where it is anticipated that the borrower will have developed substantial equity in the home by the time the payment is due and where the borrower's income is likely to improve.

Excessive Fees. Often there is a broker as well as the lender who charges fees. These fees can amount to thousands of dollars on a loan and are often rolled into the loan rather than paid up front. They are easily missed by borrowers.



Prepayment Penalties. These fees are charged if the loan is paid off early. They create a disincentive for later refinancing to take advantage of better mortgage terms.

PMI. This is a mortgage insurance charge of a few dollars per payment which, over the full term of the mortgage, can add up to a significant amount of money. The per payment cost is generally low enough to escape notice.