

PREDATORY LENDING

December 15, 2007

Homeownership Opportunities and Foreclosure Prevention Expo

Presenter

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HEED



Difference between Prime, Subprime & Predatory Lending

Prime Lending - a common benchmark for consumer loans set by banks, usually 3 percentage points higher than the Fed Funds rate

Subprime Lending - a loan to a borrower with less than perfect credit; subprime loans have higher interest rates to compensate the lender for the added risk

Predatory Lending - an unsuitable loan designed to exploit vulnerable and unsophisticated borrowers. Predatory loans are a subset of subprime loans and have one or more of the following features:

- 1) Charges more in interest and fees than is required to cover the added risk of lending to borrowers with credit imperfections;
- 2) Contains abusive terms & conditions that trap borrowers and lead to increased indebtedness;
- 3) Does not take into account the borrower's ability to repay the loan; and
- 4) Violates fair lending laws by targeting women, minorities & communities of color.



Avoiding Deceptive & Predatory Lending

Identifying Aggressive Marketing Techniques:

- Targeting mailings to low-income or minority neighborhoods
- Home improvement scams
- Racial steering to high-rate lenders
- Kickbacks to mortgage brokers (Yield Spread Premiums)



Avoiding Deceptive & Predatory Lending

Common Tactics/Sales:

- Structuring loans with payments the borrower can not afford
- Inflated appraised value of home
- Falsifying loan applications
- Adding insincere co-signers
- Forging signatures on loan documents
- Requesting signatures on blank signature pages that can be linked to other documents
- Paying off low income or subsidized mortgages
- Changing loan terms at closing
- Shifting unsecured short term debt into mortgages
- Property flipping
- Selling substandard or uninhabitable properties at inflated prices
- Promises of an approval of a lower rate in the future



Avoiding Deceptive & Predatory Lending

Common Tactics/Loan Terms:

- Unjustified high interest rates
- Unjustified high points or padded costs
- High interest balloon loans
- Unnecessary broker fees
- Required credit insurance/ financing single premium insurance
- Loans in excess of 100% LTV
- Falsely identifying loans as lines of credit or open-end mortgages
- Request to sign blank or unfinished documents
- No collection of insurance and property tax escrow
- Mandatory arbitration clauses
- Unjustified and excessive prepayment penalties
- Adjustable rate loans with high interest rates and high minimum floor rates



Avoiding Deceptive & Predatory Lending

Common Tactics at or After Closing:

- Loan flipping (repeated refinancing, often after high pressure sales)
- No receipt of closing documents
- Padded recording and settlement fees
- Daily interest when loan payments are late
- Unnecessary forced placed homeowners insurance policies
- Abusive collection/ servicing practices (misapplied payments, unapplied payments, etc.)
- Unaffordable forbearance or modification agreements
- Foreclosure abuses
- Failure to report good payment history
- Failure to provide accurate loan balance and timely payoff amount
- Failure to respond to request for account information



Market Share Analysis, by Race of Borrower Jackson MSA

**African American borrowers received the highest percent of subprime loans
and white borrowers received the lowest.**

	Loans to Whites		Loans to African Americans		Loans to Asians		Loans to Hispanics	
	Count	%	Count	%	Count	%	Count	%
Prime	7,843	83.1%	2,170	55.6%	87	82.9%	75	65.2%
Suprime	1,592	16.9%	1,735	44.4%	18	17.1%	40	34.8%
Total	9,435	100.0%	3,905	100.0%	105	100.0%	115	100.0%

Home Lending Analysis, by Borrower Race

Jackson, MS 2004