

# Defeat Debt

Credit Advisors Foundation

Volume 51, Issue 8

## Predatory Lending Comes Home

Many Americans translate the American Dream as owning their own home. Owning a home has traditionally been one of the most basic methods of increasing your wealth. Homeownership also assists in stabilizing and enhancing pride in neighborhoods that might otherwise decline.

Because of this, numerous organizations, many of them government sponsored or nonprofit, are committed and work hard to decrease the barriers and increase



*Many Americans translate the American Dream as owning their own home.*

the available opportunities for more Americans from all economic levels, racial backgrounds, and age ranges to achieve the homeownership dream. However, over the last decade, there have also been increases in the occurrence of predatory lending, raising concerns about homeownership retention, particularly among the elderly, and racial and ethnic minorities in low and moderate income neighborhoods.

What exactly is predatory lending? It is any biased lending system or procedure that causes injury to the borrower or encourages a credit scheme that promotes inequality or the continuation of poverty. How does it happen? First, let's examine the

prime and subprime mortgage lending markets for some clues.

Prime mortgage lenders loan money to a consumer to purchase or refinance their home at prime rates. Prime rates are the most favorable and least costly to borrowers and they are normally offered only to those with income, assets and a credit record that meet the standards of the prime lenders. These borrowers are considered the lowest risk group in terms of the likelihood of paying the loan on time, or according to terms and are also known as "A paper" borrowers.

Subprime mortgage lenders work with consumers whose records place them as higher risk

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# Predatory Lending

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borrowers, also known as A-, B, C and D borrowers. Each category represents the increasing risk to lenders for repayment. The lenders

*How can you spot these predatory characteristics?*

then set terms that increase the cost of credit in accordance to the level of risk. Other elements that set these lenders apart are their focus on borrowers as they refinance their mortgages and the higher equity levels as an extra guarantee of repayment. As the subprime market grew at a dizzying pace over the last few years, the opportunity for predatory lending grew as well.

Let's be very clear: Not all subprime loans are predatory in nature; however, most



*When you closed the loan were the terms the same as the "good faith estimate" you received?*

loans with predatory characteristics are subprime loans.

How can you spot these predatory characteristics?

Here are some questions to ask:

1. Has refinancing your loan several times caused either your monthly payment to increase or the total amount that you owe to increase?

2. Is the loan amount higher than the value of your home?

3. When you closed the loan were terms, payment amount and so on the same as the "good faith estimate" you received?

4. Were you encouraged to include false information or leave off less positive information from your loan application?

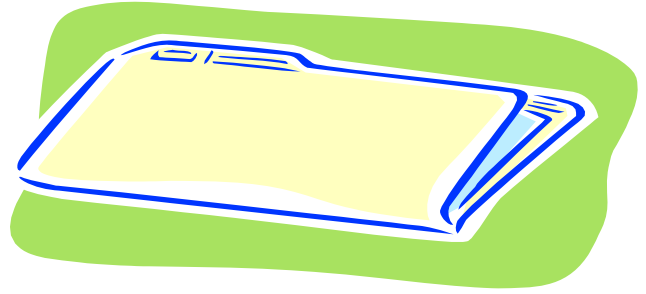
5. Did anyone from your lender change information you had put on your application?

6. At closing, were you notified of any unexpected costs that were unexplained prior to the closing?

7. Is there a prepayment penalty on your loan?

8. Does the loan include charges for credit life or credit disability insurance? Was this insurance mandatory as a term of the loan or was it optional?

9. When you signed your



*When you signed your loan papers, did you read and understand everything?*

loan papers, did you read and understand everything?

10. Was any portion of the loan papers left blank?

11. Did your lender discourage you from shopping around for interest rates from other banks, credit unions or other mortgage lenders before agreeing to your loan terms with 'today only' offers?

Answering in the affirmative to the above questions does not guarantee you have been a victim of predatory lending. However, if you did answer 'yes' to any of the questions above there may be reason for concern and you are encouraged to discuss the issue with a certified housing counselor at your earliest convenience. The housing counselor will review your concerns with you and assist you in determining if you are financially at risk from a predatory lending situation.

\* Word Search \* Word Search \* Word Search \* Word Search \* Word Search \*

The Word Search Challenge—the words listed below, pulled from the articles in this edition of Defeat Debt, are hidden in our puzzle. Test your skill and find all eighteen words.

Good Luck!

- AGE
- BORROW
- CLOSING
- DECADE
- DREAM
- ELDERLY
- ETHNIC
- GROUP
- INCOME
- LENDING
- LOAN
- OWE
- PREDATORY
- RATES
- SIGN
- SUBPRIME
- TERMS
- VICTIM

S	U	B	P	R	I	M	E	S	A
H	Q	O	L	E	N	D	I	N	G
G	D	R	E	A	M	G	N	C	E
E	J	R	L	V	N	L	C	E	E
C	L	O	S	I	N	G	O	D	L
I	A	W	E	C	R	R	M	A	D
N	K	Y	T	T	W	O	E	C	E
H	D	Z	A	I	N	U	E	E	R
T	T	E	R	M	S	P	W	D	L
E	P	R	E	D	A	T	O	R	Y

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## Financial Strategies

### 101

**Friday, August 8, 2008**

**11:30am & 12:30pm** central time

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## **The Facts about** **Reverse Mortgages**

**Friday, August 15, 2008**

**11:00am & 12:00pm** central time

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