



Predatory Lending

What is predatory lending?

Predatory lending is a practice that involves making a loan that the borrower does not need, does not want, or cannot afford. In a predatory loan, the primary benefit of the loan always goes to the lender, not to the borrower.

Who are the most likely targets of predatory lending?

Any homeowner who has value in his or her home may be a target. However, the homeowners who are most at risk are those who are faced with current financial crisis or difficulty—in other words, anyone encountering large and unusual expenses that are not a routine part of their annual family budget. This includes, for example, elderly homeowners living on fixed incomes who need to pay for large home repairs such as a roof, furnace, or window replacement. Other frequent targets include people with large medical bills and people who have lost their jobs, left their full-time employment, or otherwise found themselves without their usual steady source of income.

What should you watch out for?

- ***False or misleading promises*** – Be wary of claims that sound too good to be true, such as: “easy credit,” “we say yes to anybody,” “no out-of-pocket expenses,” “easy payment terms,” “no payment for 60, 90, 120 days, or more,” and other come-ons.
- ***Excessive fees*** – Look for all the charges that you will have to pay as a borrower. Up-front fees don’t always come out of pocket, but can be financed as part of the loan principal. Fees that might be charged to get the loan can include the payment of discount points, loan origination fees, underwriting fees, and countless other charges limited only by the lender or loan broker’s imaginations. Don’t agree to pay any charges that you have not been told about ahead of time, and don’t agree to pay any charges that you don’t understand.
- ***High or adjustable interest rates*** – Find out what type of interest rate will be applied to the loan and if the rate is adjustable. If the loan interest rate is adjustable, find out how much the rate can increase over the life of your loan. While a loan with an adjustable rate often starts out with reasonable monthly payments, the loan rate can increase over time, making it unaffordable. Also, check to see if you’ve been offered a teaser rate. A teaser rate is a low introductory interest rate that can increase during the loan term.
- ***End-of-loan features*** – Be aware of terms that don’t come into play until the end of the loan. These features can include balloon payments (a large payment due at the end of a loan, typically following lower monthly payments) or “prepayment penalties” for paying the loan off before the end of the loan term.
- ***“Interest only” loans*** – Be extremely cautious of “interest only” loans. With this type of loan, your monthly payments pay only the interest you owe the lender for financing the loan. Unlike other loans, your payments will not reduce the principle amount that you owe the lender. At the end of an “interest only” loan, you will still owe the original amount you borrowed.

- **Excessive loan amounts** – Don't let a lender convince you to take out a larger loan than you need or can afford. Borrowing against all of the value in your home leaves you without any cushion in case of emergency.
- **Repeated refinancing** – Be wary of any lender who tries to get you to refinance repeatedly. This practice, called "loan flipping" or "churning," can vastly increase your overall debt and will get you a relatively small amount of cash compared to the refinanced amount.

Educate Yourself Before You Borrow

It is important to fully understand your rights and responsibilities in matters regarding personal loans and home equity loans. If you are thinking about securing a loan by using your home as collateral, the Office of the Illinois Attorney General suggests that you consult with an attorney in private practice who represents your specific interests. Do not believe a lender or loan broker who advises you that you do not need the advice of your own attorney. In any case where a loan official, mortgage broker, loan broker, or salesperson insists that you do not need to have your private attorney review the loan contract, you should strongly consider taking your business elsewhere.

The Office of the Illinois Attorney General encourages you to educate yourself on matters involving using your home as collateral for a loan. The **Federal Trade Commission** has developed useful consumer education materials regarding predatory lending and home equity loans, including the following:

- High-Rate, High-Fee Loans (HOEPA/Section 32 Mortgages)
- Home Equity Credit Lines
- Home Equity Loans: Borrowers Beware!
- Looking for the Best Mortgage?
- Need a Loan? Think Twice About Using Your Home as Collateral
- Putting Your Home on the Loan Line Can Be Risky Business
- Reverse Mortgages

You can contact the Federal Trade Commission at:

Federal Trade Commission, Chicago Regional Office, 55 East Monroe, Chicago, IL 60603, (312) 960-5633. Call toll-free at 1-877-382-4357 (TTY: 1-866-653-4261). Or visit their Web site at <http://www.ftc.gov/ftc/consumer.htm>.

You can also contact the **Office of the Illinois Attorney General** to file a consumer complaint for cooperative mediation at any time you feel you need assistance.

please visit

www.IllinoisAttorneyGeneral.gov



Chicago

1-800-386-5438
TTY: 1-800-964-3013

Springfield

1-800-243-0618
TTY: 1-877-844-5461

Carbondale

1-800-243-0607
TTY: 1-877-675-9339