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Warning Signs of a Predatory Mortgage Loan

The Marketing and Sales of Mortgage Loans

- Aggressive solicitations of targeted neighborhoods
 - o Usually senior and minority homeowners
- Steering to high rate lenders
- Door-to-door solicitation of home improvement or financing arranged by contractor or mobile home dealer
- Large fees or kickbacks promises to the mortgage broker
 - o Can be found on the good faith estimate and the HUD-1
- Making loans to mentally incapacitated homeowners
- Paying off low-rate mortgages
 - o Compare new refinance terms to old mortgage terms to determine if new terms in borrowers interest
- Shifting unsecured debt into mortgages
- Loans in excess of 100% loan-to-value

The Application

- Falsifying loan applications (particularly regarding income level)
 - income levels
 - inflated appraisals
- forged signatures
- Adding insincere co-signers

The Loan

- High interest rate (APR)
- High fees and closing costs
 - o Can be found in the Good faith estimate and the HUD-1
- Balloon payments
 - o Coupled with promises to refinance
 - o Can be found on the Truth in lending disclosure and the loan note
- Negative amortization
- High appraisal costs
 - o Can be found on the good faith estimate and the HUD-1
- Inflated appraisal
 - o The higher the loan value the higher the fees to the broker and lender

- Padded recording fees
 - o Can find out amount of fee from county clerks office. Taxes may apply.
- Back-dating of documents
- Charging for duplicative services
- Requiring credit insurance
 - o Must be voluntary under state and Truth in Lending law
- Mandatory arbitration clauses
- Making an unaffordable loan based on the value of the property

The Closing

- rushed loan closing
- terms at closing different from what the borrower thought they would get
 - o compare the good faith estimate, loan commitment letter, advertising and other pre-closing documents with the HUD-1

After Closing

- Multiple refinancing or “flipping” of the mortgage loan (often after high-pressure sales)
 - o Ask client about previous loans going back to the purchase mortgage. Collect as many of the documents from that loan as possible.
- Flipping in the sale and resale of the property
 - o Check records of title from county clerks office
- Excessive late fees (including daily interest)
 - o Get a copy of the homeowners payment history
- Abusive collection practices
 - o Ask client about the manner in which payments have been collected and review letters from the servicer
- Excessive prepayment/repayment penalties
 - o Look at the note
- Shoddy installation of the mobile home

Please note: This list is not exhaustive, but meant to alert consumers to avoid predatory practices, which come in many forms!