Warning Signs of a Predatory Mortgage Loan

The Marketing and Sales of Mortgage Loans
- Aggressive solicitations of targeted neighborhoods
  - 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
  - Can be found on the good faith estimate and the HUD-1
- Making loans to mentally incapacitated homeowners
- Paying off low-rate mortgages
  - 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
  - Can be found in the Good faith estimate and the HUD-1
- Balloon payments
  - Coupled with promises to refinance
  - Can be found on the Truth in lending disclosure and the loan note
- Negative amortization
- High appraisal costs
  - Can be found on the good faith estimate and the HUD-1
- Inflated appraisal
  - The higher the loan value the higher the fees to the broker and lender
- Padded recording fees
  - Can find out amount of fee from county clerks office. Taxes may apply.
- Back-dating of documents
- Charging for duplicative services
- Requiring credit insurance
  - 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
  - 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)
  - 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
  - Check records of title from county clerks office
- Excessive late fees (including daily interest)
  - Get a copy of the homeowners payment history
- Abusive collection practices
  - Ask client about the manner in which payments have been collected and
    review letters from the servicer
- Excessive prepayment/repayment penalties
  - 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!