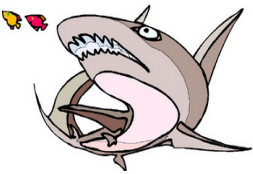


Financial Management

 Working for Wisconsin Families
Extension

Gayle Rose Martinez, AFC
Clark County Family Living Agent
University of Wisconsin-Extension

PREDATORY LENDING PRACTICES - HOMEOWNERS BEWARE



Do you own your home? If so, it is up to you to protect this valuable asset. If the value of your house is more than the amount of your mortgage, the difference is home equity. For example if your house is appraised at \$100,000 and your mortgage amount is \$75,000 you have \$25,000 of equity in your house. If you agree to a loan that's based on the equity you have in your home you maybe putting your most valuable asset at risk. Take good care of your home ownership. Know your rights and be aware of abusive lending practices to avoid losing your home to Predatory Lenders.

Equity Stripping

Predatory Lenders encourage homeowners to use the equity in their home to "catch up" or "free up some cash". They do not care if you can make your monthly payments on an equity loan. The lender may encourage you to "pad" your income on your application form to help get the loan approved. This lender may be out to steal the equity you have built up in your home. If you take out a loan but don't have enough income to make the monthly payments you are being set up. As soon as you are unable to make your monthly payments the lender will foreclose – take your home and strip you of the equity you have spent years building.



The Wisconsin Homeowner's Protection Act, which is scheduled to take affect in early 2005, requires lenders to consider the borrower's ability to repay the loan, not just the value of the home.

Hidden Loan Terms: Balloon Payments, Prepayment Penalties



If a lender offers to save you from foreclosure by refinancing your mortgage and lowering your monthly payments, beware, these payments may be just covering interest in a loan. At the end of the term of the loan you could owe the entire amount of the loan in one lump sum called a balloon payment. You may be forced to accept a new loan with unfavorable conditions such as higher interest rates or fees. If you can't make the balloon payment or refinance, you face foreclosure and loss of your home.

If you decide to refinance with a lower interest rate, you may discover your lender included a prepayment penalty in your contract. Prepayment penalties are fees that have to be paid if the borrower chooses to pay off a loan early. Read your contract before signing and look for a prepayment penalty clause.

The Wisconsin Homeowner's Protection Act, which is scheduled to take affect in early 2005, prohibits balloon payments. It will also require prepayment penalties be limited to the first three years of the loan and that options without prepayment penalties be available.

Loan Flipping

You have a mortgage that fits nicely into your budget, but you could use some extra cash. A lender calls to talk about refinancing and the availability of extra cash as bait. You agree to refinance, and after you've made a few payments the



lender calls to offer a bigger loan, which will yield you more cash. If you accept, the offer the lender refinances your original loan and lends you additional money. This practice is often called “flipping”. Each time you refinance, the lender charges you highpoints and fees and may increase your interest rate as well. If the loan has prepayment penalties you will have to pay the penalty each time you take out a new loan. You now have some extra money, and a lot more debt, stretched out over a longer time. The extra cash you received may be less than the additional cost and fees you were charged for the refinancing. And what is worse, you are now paying interest on those extra fees charged in each refinancing. After awhile, if you get in over your head and can't pay, you could lose your home.

The Wisconsin Homeowner's Protection Act, which is scheduled to take affect in early 2005, prohibits loan flipping.

Credit Insurance Packing



You have just purchased a house. At closing, the lender gives you papers to sign that include charges for credit insurance or other “benefits” that you did not ask for and do not want. The lender hopes you don't notice this and that you just sign the loan papers where you are asked to sign. The lender doesn't explain exactly how much extra money this will cost you each month on your loan. If you do notice, you may be afraid to object incase you don't get the loan, or the lender may even tell you that if you want the loan without the insurance, the loan papers will have to be rewritten and that it could take several days. If you agree to buy the insurance, you are really paying extra for the loan by buying a product you may not want or need. If it is \$15 a month for this additional insurance, it would cost you \$180 a year, or \$5,400 dollars over 30 years. Consumer advocates usually advise that there are more cost effective forms of insurance you can purchase.

References: Shopping for a home equity loan requires caution. John Merrill University of Wisconsin – Extension housing specialist, Madison Wisconsin
Home Equity Loans: Borrowers Beware, Federal Trades Commission
Phone: 877-FTC-HELP Web: www.FTC.GOV

Author: Gayle Rose Martinez, AFC, Family Living Agent, University of Wisconsin-Extension

Reviewers: Michael Gutter, Asst. Professor UW-Madison, Family Financial Management Specialist, Family Living Program UWEX; Rita Straub, Family Living Agent Marathon Co. UWEX

The Wisconsin Homeowner's Protection Act, which is scheduled to take affect in early 2005, prohibits financing single premium credit life insurance. Credit life insurance is a special form of term life insurance that guarantees mortgage payments if the borrower is unable to make them.

Protect Yourself



Do:

- ◆ **Ask** if credit insurance is required as a condition of the loan. If you don't want the insurance ask that the charge be removed from the loan documents.
- ◆ **Keep careful records** of what you've paid, including billing statements and canceled checks. Challenge any charge you think is inaccurate.
- ◆ **Read all items carefully.** If you need an explanation of any terms or conditions, talk to someone you can trust, such as a knowledgeable family member or an attorney.
- ◆ **Consider all cost** of financing before you agree to a loan.

DON'T:

- ◆ **Agree to a home equity loan if you don't have enough money** to make the monthly payments.
- ◆ **Sign any document you haven't read** or any document that has blank spaces to be filled in after you sign.
- ◆ **Let anyone pressure you** into signing any document.
- ◆ **Agree to a loan that includes credit insurance or extra products you don't want.**
- ◆ **Let the promise of extra cash or lower monthly payments get in the way of your good judgment** about whether the cost you will pay for the loan is really worth it.
- ◆ **Deed your property to anyone.** First consult an attorney, a knowledgeable family member or someone else you trust.

For more information contact: Gayle Rose Martinez, Clark County Family Living Agent, University Wisconsin-Extension, 517 Court St., Courthouse Room 104, Neillsville WI 54456 or call 715-743-5121, FAX 715-743-5129
Email: gaylerose.martinez@ces.uwex.edu