GLOSSARY S-Z

SUB-PRIME LOANS
Loans given to borrowers with low credit scores that often include high interest rates and higher costs to the borrower. They generally include adjustable-rate mortgages and prepayment penalties.

TRUTH IN LENDING DISCLOSURE STATEMENT
A document that the borrower receives at closing which details the annual percentage rate, the full cost of the loan, and the monthly payments.

UNDERWRITING
The process whereby a lender decides if a loan is viable. This includes reviewing the potential borrowers ability to pay, credit history, and the value of the property.

VA (VETERANS AFFAIRS)
A government agency that supports military veterans. The VA guarantees mortgage loans for veterans.

This training was provided by the Greater New Orleans Fair Housing Action Center

Telephone: 504-596-2100
Toll Free: 877-445-2100
General Email: info@gno-fairhousing.org

9am-5pm Mon.-Fri.
404 S. Jefferson Davis Pkwy
New Orleans, LA 70119

GREATER NEW ORLEANS
FAIR HOUSING
ACTION CENTER

FAIR HOUSING UNIVERSITY

PREDATORY LENDING

GREATER NEW ORLEANS
FAIR HOUSING
ACTION CENTER

www.gnofairhousing.org

Predatory Lending

3 How is lending supposed to work?
4 What is predatory lending?
5 Equity: Can predatory lending affect it?
6 Examples of predatory loans
6 When can predatory lending occur?
7 What to watch out for:
- Marketing & sales
- The loan application
- The loan terms
- The closing
- After you receive your keys

10 Consumer protections
10 Louisiana laws
11 How to avoid a predatory loan
14 Glossary

R-S GLOSSARY

REFINANCE
Taking out a mortgage loan to pay off a prior mortgage on the property. Usually used to pay off other debts and lower interest rate and payments, but also can result in a borrower taking out an unaffordable and inappropriate loan.

REVERSE MORTGAGE
Formally called a Home Equity Conversion Mortgage (HECM). This is a loan for homeowners over age 62 who need money to pay monthly expenses or make home repairs.

The loan is not paid back until either the homeowner dies or moves out of the house.

SECONDARY MARKET
Investors who purchase loans from mortgage originators. Loans are packaged together and sold to secondary market investors to provide capital to primary market lenders to make more loans.

The secondary market includes Government Sponsored Enterprises (GSE's) such as Fannie Mae, Freddie Mac, Ginnie Mae, the Federal Home Loan Banks and private investors such as investment banks, insurers, hedge funds, and pension funds.

SERVICER
The company that collects mortgage payments from the homeowner, manages escrow accounts, and manages the default process.

This is the company who the homeowner has direct contact with. The servicer is paid a fee by the loan's investor to service the mortgage.

GLOSSARY P-R

PRE-PAYMENT PENALTIES (continued)
Pre-payment penalties make it costly for homeowners to refinance out of expensive loans, because they have to pay this additional cost.

PRIMARY MARKET
Mortgage originators who give out loans. These include banks, credit unions, mortgage banks, mortgage companies, mortgage brokers, and finance companies.

PRIME LOANS
Loans given to borrowers with good credit, generally over a credit score of 650, and meet the underwriting criteria of FHA and the GSE's. They generally have low interest rates.

PRINCIPAL
The amount of money borrowed to purchase a home.

PROMISSORY NOTE
Also referred to as the note. The loan document signed by the borrower when they take out a mortgage.

It details the terms for paying back the loan, the amount of monthly payments, how the interest rate can change, where payments are to be paid, what happens in case of default, and how late charges are assessed.

REPAYMENT TERMS
Most standard mortgages have repayment terms of 30 years, though they can vary from 15 to 40 years.

The borrower makes monthly payments until the loan and interest are paid in full.

HOW IS LENDING SUPPOSED TO WORK?

CREDIT & LENDING

What kind of loan you get is based largely on your credit score. The terms of the loan should be reasonably related to the lender's level of risk.

If you have good credit and a high credit score, you can qualify for a prime loan with a low interest rate.

If your credit is not good and you have a low credit score, you may qualify for a sub-prime loan with a higher interest rate.

SUB-PRIME LOANS

The lender is taking a risk by loaning money to someone who has a history of not always paying their bills or of paying them late.

The lender accounts for the risk associated with loaning to someone who has a history of not always paying their bills by charging a higher interest rate.

All predatory loans are sub-prime, but not all sub-prime loans are predatory.

WHAT IS PREDATORY LENDING?

PREDATORY LENDING: An abusive practice meant to take advantage of vulnerable and unsophisticated borrowers.

Predatory loans are purposely designed to fail, so that lenders can increase their profits by collecting unnecessary fees.

HOW IS PREDATORY LENDING RELATED TO FAIR HOUSING?

Many times, predatory loans are targeted at groups protected under the Fair Housing Act.

For example, predatory lenders aggressively market certain harmful products to women and people of color.

Sex and race are protected classes under the Fair Housing Act.

Filing fees in Orleans Parish can be found at http://www/orleanscdc.com/forms/misc/mortgage%20Dividion%20%20%FilingFee%20%201-4-09.pdf

PAYING POINTS
Also called discount points. A point is equal to 1% of the amount of the loan that a borrower can pay to reduce the interest rate of a loan.

PAYMENT OPTION ADJUSTED RATE MORTGAGE (ARM)
A mortgage where the borrower has a choice of how much to pay each month.

The monthly payments may not cover the accrued interest, so this can result in negative amortization, where the balance of the loan actually increases over time.

PITI
Principal, interest, taxes and insurance, or the total monthly mortgage payment. An affordable loan will have a PITI payment of approximately 30% of the borrower's gross income but no more than 40% of gross income.

PREDATORY LENDING
Lending that is meant to take advantage of vulnerable borrowers. It generally includes highest costs and may not consider the borrowers ability to repay the loan.

PRE-PAYMENT PENALTIES
A fee for paying a loan off early or in some cases paying an additional principal, usually will be from 3-5 years after loan was originated, and will be a percentage of the loan balance.

GLOSSARY M-P

MORTGAGEE
The lender, or other company that services a loan and collects payments from the borrower.

MORTGAGOR
The borrower.

MORTGAGE INSURANCE
Insurance paid by a borrower to protect the lender, in case the borrower is unable to make the monthly mortgage payments.

Mortgage insurance is paid as part of a monthly mortgage payment, and is generally required until 20% of the loan balance has been paid.

NEGATIVE AMORTIZATION
Usually, borrowers make payments that go towards reducing the principal balance of a loan.

With pay option loans, the balance can increase because the borrower is not paying anything towards principal and enough towards interest, so the borrower actually ends up owing more on the loan over time.

PADDED RECORDING FEES
A borrower must pay fees towards legal documents being recorded with local government (in New Orleans, the Recorder of Mortgages).

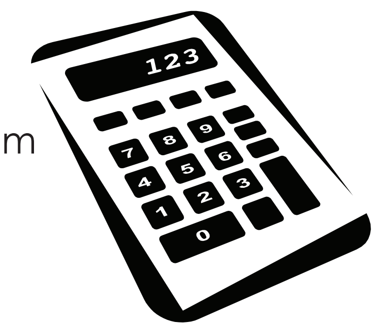
Predatory lenders may try to charge more than the actual costs of these fees.

EQUITY:

CAN PREDATORY LENDING AFFECT IT?

EQUITY is the value of a piece of property minus any liabilities owed on it. This is the homeowner's stake in their property.

Equity is calculated by subtracting the amount owed on a mortgage from the market value of the property.



The homeowner builds equity as the loan's principal is paid down and the property appreciates

Some predatory practices can either strip the equity out of a property or prevent a homeowner from building equity by not paying down the principal amount on a loan.

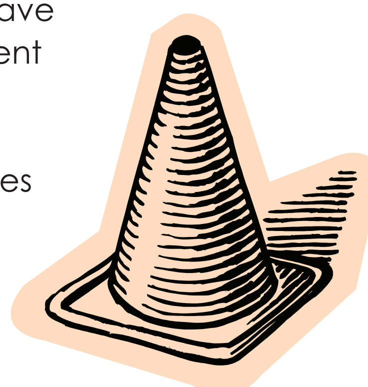
Be cautious of:

- Loan-flipping and refinancing schemes
- Interest only loans that are predatory

EXAMPLES OF PREDATORY LOANS

Most exotic loan products were created for a specific group of people (i.e. investors) and not intended for broad use by the average homeowner.

Although popular in the early 2000s, these types of loans have not been as common in recent years:



- Adjustable Rate Mortgages (ARM's)
- Pay-option loans
- Balloon payment loans
- 80/20 loans
- Interest-only loans

WHEN CAN PREDATORY LENDING OCCUR?

Predatory practices can occur at any stage of the lending process.

L-M **GLOSSARY**

LOSS MITIGATION
The process of minimizing the financial losses to a lender.

Loss mitigation involves reviewing delinquent loans for other repayment options including forbearance, repayment plans, loan modifications, partial claims, short sales, or deeds-in-lieu of foreclosure. All of these are known as workouts.

MANDATORY ARBITRATION CLAUSE
A clause in predatory loan contracts that waives a borrower's legal rights and prohibits bringing a claim in court against the lender.

Instead, if the borrower has a dispute with the lender, he or she must go through an arbitration process, conducted in secret with limited evidence and documentation.

Arbitration is heavily in favor of the lender.

MORTGAGE
A loan secured to a piece of property that is paid back in installments over a fixed period of time.

The mortgage creates a lien on the property, giving the lender a financial interest in the property. The mortgage is also the signed contract that explains the rights and responsibilities of the borrower and lender under the terms of the loan.

Properties can have more than one mortgage.

GLOSSARY I-L

INFLATED APPRAISALS (cont)
If the lender overvalues the house with an inflated appraisal, they can sell a loan for more than the house is actually worth, leaving the borrower underwater on the loan, and owing more than is necessary.

Homeowners who refinance are at most risk of being victimized by inflated appraisals, because they can be convinced to take out a loan for more money than they actually need if they are told the house is worth more than it really is.

This results in loss of equity for the homeowner.

INTEREST
The percentage rate charged to the borrower on the amount borrowed.

INTEREST-ONLY LOAN
A mortgage where the monthly payment only includes money towards the accrued interest. The principal is not reduced, so the homeowner gains no equity in the property.

LOAN FLIPPING
Multiple refinances one after another. Leads to loss of equity as loan balances increases, giving little benefit to the borrower.

LOAN-TO-VALUE RATIO
The ratio of the amount of a mortgage loan to the value of the property.

WHAT TO WATCH OUT FOR: MARKETING & SALES

- Aggressive solicitations of targeted neighborhoods (door to door, by phone, and mail)
- Offers that steer borrowers to high rate lenders
- Offers to pay off low interest rate mortgages
- Offers to pay off credit card debt
- Financing arranged by contractors

WHAT TO WATCH OUT FOR: THE LOAN APPLICATION

- False information in application, including falsified income
- Lenders that don't ask for proof of income
- Forged signatures
- Unnecessary and/or insincere co-signers
- Lenders who offer you one product when you've applied for another. For example: applying for an FHA loan but receiving an ARM loan
- Inflated appraisals

WHAT TO WATCH OUT FOR:

THE LOAN TERMS

- High Interest Rates
- High fees and closing cost
- Balloon payments and pre-payment penalties
- Negative amortization
- Padded recording fees
- Back-dating of documents
- Charges for the same services multiple times
- Unnecessary products
- Mandatory arbitration clauses
- Paying points but not receiving a lower interest rate
- Yield Spread Premiums- Kickbacks to mortgage brokers
- P.O.C.- Paid Outside of Closing fees not included in the loan settlement

WHAT TO WATCH OUT FOR:

THE LOAN TERMS
INTEREST RATES

- Adjustable interest rate
- Hybrid fixed-adjustable interest rate
- Interest only payments
- Pay option loans

F-I GLOSSARY

It does this by insuring loans made by private financial institutions. All FHA loans include mortgage insurance to protect the lender from losses associated with foreclosure.

FIXED RATE MORTGAGE
The interest rate charged remains the same over the life of the loan so the monthly payments do not change.

GOOD FAITH ESTIMATE
The document a potential borrower receives after completing a loan application that gives an estimate of the terms of the loan and the costs associated with origination.

HOME EQUITY LOAN/LINE OF CREDIT
A loan secured by a property that can be used for numerous purposes, including paying off debts, making home improvements, or paying for college.

The loan amount is based on the homeowner's equity in the property. A line of credit is a loan that allows the borrower to take out money as needed.

HUD-1 SETTLEMENT STATEMENT
A document the borrower receives at closing that details all the costs associated with the loan's origination.

INFLATED APPRAISALS
When underwriting a loan, the lender will perform an appraisal to determine how much the house is worth, and will only sell a loan that is generally less than or equal to the property value. (continued on next page)

GLOSSARY E-F

EQUITY
The value of a piece of property minus any liabilities owed on it.

This is the homeowner's stake in their property. Equity is calculated by subtracting the amount owed on a mortgage from the market value of the property.

The homeowner builds equity as the loan's principal is paid down and the property appreciates in value over time.

ESCROW
A bank account set up and controlled by a lender on the homeowner's behalf. Every month, the homeowner makes payments, which are deposited into the account.

The funds are used to pay for property insurance and taxes. The escrow portion of a mortgage payment can change based on changes to annual insurance premiums and property tax bills.

Each year the lender is required to conduct an escrow analysis to determine the proper amount needed to pay all bills when due.

EXCESSIVE LATE FEES
Late fees are usually $15 or 5% of the late payment amount, whichever is more. Late fees that are any more than that would be considered excessive.

FEDERAL HOUSING ADMINISTRATION (FHA)
A government agency that is part of the Department of Housing and Urban Development. FHA's purpose is to promote homeownership.

WHAT TO WATCH OUT FOR: THE LOAN TERMS
INSURANCE

- Escrow accounts: make sure you know whether you have one
- Unnecessary products i.e. credit insurance

WHAT TO WATCH OUT FOR: THE CLOSING

- Rushed loan closing
- Terms at closing that are different than what the borrower was originally told
- Threats if the borrower refuses to sign loan documents
- Not receiving signed copies of documents

AFTER YOU RECEIVE YOUR KEYS, BE CONCERNED BY:

- Multiple refinancing or loan flipping
- Excessive late fees
- Unexplained fees and charges
- Abusive collection practices

CONSUMER PROTECTIONS

Truth in Lending Act: Credit companies must provide their interest rates and other information about an account before processing the loan.

Real Estate Settlement & Procedure Act (RESPA): In federally related mortgage loans, borrowers must receive disclosures at various points in their closing.

Dodd Frank Act: Created a council which is responsible for overseeing and enforcing financial institutions compliance with consumer financial laws.

Secure and Fair Mortgage Licensing Act (SAFE): All mortgage originators must be licensed and registered through a state wide system.

Equal Credit Opportunity Act (ECOA): You can't be denied a loan because of marital status, age, source of income or for filing a previous complaint.

Right to Cancel Law: On refinance transactions, Federal law mandates that you have three days, after signing your loan documents, in which to cancel your loan.

LOUISIANA LAWS

Louisiana has minimal safeguards against predatory lending practices.

- No restrictions on points and fees
- No restrictions on pre-payment penalties
- No protections against loan flipping

A-D GLOSSARY

APPRAISAL
A determination of the market value of a property. Appraisals compare similar properties to determining how much a house is worth.

They are conducted when a potential homeowner wants to purchase a home, and will also be conducted by the lender in reviewing a loan for loss mitigation or refinancing.

BALLOON PAYMENT
A large payment that is due when a loan matures. Loans that include balloon payments generally amortize the loan over a longer period than the repayment term, leaving a large balance due.

The borrower must either pay the full amount when due, or take out another loan to pay it back.

CONVENTIONAL LOAN
A loan from investors that is not guaranteed or insured by the federal government. Although a conventional loan is not insured or guaranteed by the government, it can still follow the guidelines of government sponsored enterprises (GSE's) such as Fannie Mae or Freddie Mac.

DEFAULT
When a loan payment is 30 or more days past due.

DELINQUENCY
When a loan payment is not made on time.

GLOSSARY 1-A

80/20 LOAN
Also called a piggyback loan. A mortgage made to purchase a home where the buyer does not have cash for a down payment.

Instead, the buyer takes out 2 loans, the first at 80% of the cost to purchase the house, and the second for 20% to cover the coast of the down payment.

ADJUSTABLE RATE MORTGAGE (ARM)
The interest rate charged can change at specified times, generally once a year or every 6 months. The interest rate is determined by an index.

Terms of an adjustable rate mortgage are explained in the note. Common ARM's are 2/28's, where the interest rate is fixed for 2 years then adjusts every six months for the remaining 28 years, or 3/27's.

They generally include a teaser rate, a low interest rate charged at the beginning of the loan, and a cap, the maximum interest rate that can be charged. Usually the interest rate will never be less than the initial rate.

AMORTIZATION
Calculation used to determine monthly payments on a loan. A mortgage payment is actually split into two payments, the principal and interest. The amount of money that goes to each changes over time, with early payments going mostly to interest and later payments to principal. This is how loans can be paid back in equal installments.

HOW TO AVOID A PREDATORY LOAN:

5 STEPS

1 SHOP AROUND

- ✔ Before you take out a loan, do some research and contact different lenders to find out about prevailing interest rates and loan terms.
- ✔ Go to a bank, credit union, or lender you know and trust.
- ✔ Avoid deals on the Internet.
- ✔ If refinancing, always get a lower interest rate.
- ✔ Don't take a deal that sounds too good to be true, it probably is!

2 KNOW YOUR CREDIT

- ✔ You can get a free copy of your credit report from all 3 credit bureaus once a year at:

www.annualcreditreport.com
OR by calling 1-899-322-8228

- ✔ Find out if there is inaccurate information on your report and get it fixed.
- ✔ Checking your credit will not affect your credit score.
- ✔ If you don't know whether you have credit problems, don't rush into a loan.

3 ASK FOR ADVICE

- ✔ Non-profit organizations offer classes for first-time homebuyers. Sign up for one when you're thinking about buying a house.
- ✔ If you have already been approved for a loan, let a pro-bono attorney or housing counselor review the terms before you go to sign.

4 READ YOUR LOAN DOCUMENTS

- ✔ Understand the loan terms

1. What is the monthly payment?
2. Are you paying principal, interest, taxes, and insurance (PITI)?
3. Is there an escrow account?
4. What is the interest rate and the APR?
5. Is there an adjustable rate feature?
6. How often will the interest rate change?
7. Is there a minimum and maximum interest rate?
8. Is there a pre-payment penalty?
9. How much are the late fees?

DOCUMENTS TO LOOK AT:

- Loan application
- Truth-in-lending disclosure
- HUD-1 settlement statement
- Notice of right to cancel
- Mortgage
- Promissory note

5 DON'T SIGN ANY DOCUMENTS WITHOUT READING THEM FIRST!

Also, do not sign any form with blank spaces.