Beware of Loser Loans

It is important to understand some of the traps of predatory lenders.

by Natalie Danielson

PROFESSIONAL Direction INC

email: clockhours@gmail.com

www.clockhours.com

A Washington State Approved Real Estate School under R.C.W. 18.85. ***Sponsor S 1353***

Beware of Loser Loans

This 3 clockhour class is an introduction to different types of loan programs that could be abusive and take advantage of the consumer. Some consumers with less than perfect credit may pay higher rates and fees. Predatory lending practices take advantage of consumers that do not necessarily have to pay higher fees.

Course Objectives

As a result of taking this class the agent shall be able to:

- Identify different types of predatory lending practices
- Know rights of borrowers with regards to lending
- Know how lenders are regulated.
- Know what resources are available.

It is important for the agent to go to a website listed at the end for resources to learn more about Loser Loans!

Beware of Loser Loans

Section 1 1/2 hour	Learn definition of predatory lending Know what are signs of predatory lending
Section 2 2 hours	List the different types of predatory lending practices
Section 3 1/2 hour	Know what rights the consumer has. Know how lenders are regulated.

Sub-prime Lending vs. Predatory Lending

There is a difference between Sub-prime and Predatory lending.

Sub-prime is typically for borrowers who cannot qualify for a prime loan due to credit or income issues.

A sub-prime loan helps borrowers with less than perfect credit, inconsistent employment history, or incomplete application documents.

A sub-prime loan has a higher interest rate because the lender is taking a bigger risk in making the loan. The terms of the loan are fully disclosed and the payment is affordable for the borrower.

Predatory lending is done by lenders to take advantage of consumers with bad or perceived bad credit.

Predatory lenders apply rates and fees that are over and above what is necessary to cover their risk of losing money.

Predatory lenders take advantage of consumers by often not disclosing the true terms of the loans.

Think of a "predator."

With all lenders having licensing requirements, the number of lenders has decreased dramatically and the lenders have tightened their requirements for loans.

Learn so much about predatory lending on Wikipedia! There is a long article that really explains all you need to know and what to watch for! http://en.wikipedia.org/wiki/Predatory_lending

Flipping

Frequent refinancing of a loan can be considered “flipping”.”

The borrower pays more and more fees and interest and end up with a higher loan balance and higher payments.

Flipping continues to occur even in a market with the large number of short sales and foreclosures. As the market heads upwards and interest rates stay low, this will become a trend.
Some buyers or “investors” purchase homes in a short sale and attempt to flip them before closing. This would require a double escrow… in other words there would be a simultaneous closing of both transactions without the bank having knowledge. It could even occur in less than 90 days.
This is fraudulent because of the intent to deceive.
In Washington State, if a buyer purchases a fixer to sell in a short time period, less than a year without moving into the house, the BUYER must have a contractor’s license and bond. Not just hire a contractor… but be one!

Yield Spread Premiums

The lender can receive rebates for higher interest rate loans. Sometimes these can be excessive taking advantage of the borrower!!!

They are not obvious on the HUD statement. Look for “p.o.c.” on HUD. With the new HUD closing statements and the CFPB changes, these are not an issue as they were in the mid 2000’s. They were not always disclosed.
The world of lender rebates and yield spread premiums has gone away. But, there are still lenders that charge costs that are not fully openly disclosed to the borrowers. There is no reason to think they won’t come back.

Charging High Rates

Some lenders are predatory charging excessive interest rates or fees to borrowers that can qualify for better rates.

Some predatory lenders do not disclose the true terms and rates of the loan including the prepayment penalties and the loan fees.
As the banks tighten up their requirements, private lending and portfolio lenders will enter the marketplace again. Real the terms carefully.

Payments too high

Approving a loan with payments higher than the borrower can afford to pay.
Sometimes lenders "fudge" on the borrower's income.
Sometimes they quote payments that are interest-only to borrower until they see the HUD.

What were commonly referred to as "liar loans" were low or no documented loans. The borrower would "state" his and/or her income without documenting the source. This would result in a borrower getting a loan for much higher than he/she could actually qualify for. If a loan had limited documentation, the borrower is still required to be honest on the application as to source and amount of income.

Sometimes the loans had prepayment penalties or ARM readjustments requiring the borrower to basically refinance in 3 or 5 years because the terms of the loan would change and payments would go up to amounts that the borrower could not afford.

Pressuring to Sign

Pressuring or confusing a borrower to sign without understanding the terms of the loan. It is difficult enough for a well educated borrower to understand all the papers required at the closing of a transaction. There have been times where the buyer was completely in the fog trying to figure out what the actual terms were on the paperwork.

HUD did create a new good faith estimate form a few years ago and requirements for how certain fees and charges must be in a range of what was quoted on the estimate in an attempt to have better disclosure to borrowers. In 2015, we will see all the closing documents start to change again.

Prepayment Penalties

Prepayment penalties can trap borrowers into remaining in high cost loans for long periods of time.

For example, a loan may have a prepayment clause so that a borrower must come up with a certain amount of money, let's say in 3 to 5 years. The lender encourages the borrower to get the loan because of the initial lower fees. The borrower is often not able to come up with the pre payment fees and will have to refinance.

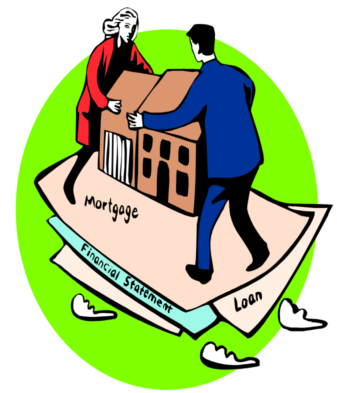
Then the original lender will refinance the loan, if possible and charge more fees.

Can be done by lender to increase loan officer income and not always "required" by underwriter!

Targeting

Targeting borrowers for high cost loans…. Including people of color or different national origin sometimes taking advantage of their language difficulties… Or elderly who don't understand. There have been lenders that targeted people that attend the same church. Unscrupulous lenders have been known to take advantage of people that may not understand the terms of loans or that trust them because of a previous affiliation.

Stripping Equity

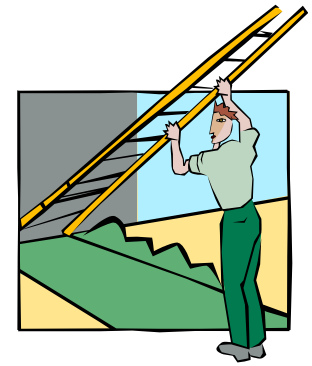


Stripping equity from a home with fraudulent sales price was done regularly with the help of appraisers who valued the property for more than the actual market value.

When the property was written up with a much higher sales than list price and then the borrower took out money from the loan at closing the intent was to deceive the lender as to the value of the property. Taking cash back at closing on a purchase mortgage has not been legal.

The appraiser was often inflating value to deceive lender so the house was not the collateral for the loan!

That is one of the main reasons many homes are "under water" today. They were purchased with an inflated price leaving the borrower with a loan higher than the market value. The buyers might have taken out lets say… $50,000 and bought an SUV that sits in the driveway with the cash that was given out from the mortgage. The home might have had a market value of $350,000 but the borrower and appraiser led the bank to believe it was worth $450,000 and the borrower took the "fake" equity out to spend on things like an SUV.



Home Improvement scams

Contractors have been known to steer a homeowner to a high cost lender to finance repairs.

Because so many people will be unable to sell their home and move there will be more home improvement business in the future. But this could lead to more contractor scams on the horizon. Homeowners must beware of schemes that sound too good to be true. Be careful of contractors that might trade equity for construction or have homeowners sign agreements tying up equity.

Bait and Switch

Using bait and switch tactics to lure a consumer and then changing the terms of the loan at closing. That will not happen as much because of the new requirements with lenders using the federal HUD and Good Faith Estimate forms. The fees and terms must be clearly disclosed on both forms.

Packing

Packing a loan with single premium credit insurance products such as credit life insurance and not disclosing the inclusion, cost or additional fees. There are even "FAKE" foreclosure insurance companies on the internet!

This may become more common as lenders try to find ways to make additional money on loans.

Promises to Fix Loans with Future Refinances

A lender that promises to fix a borrower's loan with a future refinance is a sure sign of a predatory lender. The lender is basically selling the borrower two loans with the promise to get paid on both. The lender may put the borrower in loan with low monthly payments that will inflate or "explode." Then the lender promises that it will be worth it to refinance to another loan prior to that happening. Today, there are many homeowners who want to refinance to get out of a "bad" loan situation but the market will not allow it. Either they cannot qualify for a refinance or the property does not have any equity and does not qualify.

Check Cashing or Pay Day Loans or "private lenders"

This is about as close to predatory lending as possible. The minute you walk in the door to a lender on a corner willing to lend you on future earnings you are stepping into very hot water…. Actually quick sand. Real estate agents have been known to use future commissions as collateral for a loan. You will find yourself owing more than you can possibly imagine with basically unregulated rates. Even the PayDay loans.org website has an article about avoiding bankruptcy. Are they encouraging consumers to avoid it by taking out another loan?
There are private lenders in the market. The most well known is called the "shark" and was featured on the front page of the Seattle Times in the fall of 2010. They are completely unregulated.

Short Sale Transactions

There are many buyers and investors in the market that are attempting to purchase a property in a Short Sale and resell or "flip" the property prior to closing. They may negotiate with the bank a short sale amount while advertising the property for more on the internet like on CraigsList. Then have a simultaneous closing… where they don't actually "purchase" the property… they just pocket thousands as the buyer pays more than what the bank agreed in the short sale. So the buyer/investor doesn't actually get a mortgage loan. This is fraudulent with an attempt to deceive the bank as to the actual sale.

The Washington State Department of Licensing along with the Washington State Department of Financial Institutions published a document that is a guide for real estate agents and consumers regarding short sale transactions.

The guide can be found at http://www.dol.wa.gov/business/realestate/renews.html
They are also available from the Washington REALTORS and the NWMLS. It is important that all agents and consumers considering a short sale read these documents. Real estate agents and lenders must not be consulting with consumers on issues that are beyond their area of expertise. A short sale affects the consumer's financial and legal situation.

Suze Orman's take on Loser Loans

at http://biz.yahoo.com/pfg/e38home/art011.html

Let me explain exactly how interest-only loans make it so much more likely that an individual investor will default.

Let's begin with this basic truth: interest-only loans were invented by mortgage lenders who know that fewer and fewer folks can afford homes in the hottest locations using a standard 30-year fixed rate mortgage, but who, with all the money being made in these boom markets, are desperate to hook people into mortgages any way they can. So they came up with a loan to make you feel as if you can afford to buy, by requiring that you pay only the interest in the early years of the mortgage. The catch, of course, is obvious. In a way, it sort of reminds me of the tobacco industry: selling glamour and gratification up front, at the heavy risk of dire problems down the road.

With interest-only mortgages, the risk is to your financial health. Look at the most conservative of all interest-only loans, the fixed rate interest-only mortgage where you pay interest-only in the first five years (or whatever term you decide on) of a 30-year mortgage. All that means is that you get an easy ride for five years, then are required to get all the principal paid off in the remaining 25 years of the loan. Your payments are smaller than normal for five years, then larger than normal for the next 25.

Oh sure, a lender who is pushing the interest-only mortgage will tell you not to worry. You'll be making more in five years (or whenever your principal payments are set to begin) so you'll be able to afford the hike. Excuse me? Where is it written in today's economy that you are guaranteed to be making more? And don't fall into the "you'll just refinance" trap either. How can you be sure you will be able to refinance? What if home prices tread water for a few years, so you don't have a lot of built-up equity? Or what if interest rates are 7 percent or 7.5 percent rather than today's 5.8 percent? You get my point.

But the above example is just one kind of interest-only loan; they come in many shapes and forms. One of the most popular of all interest-only loans, according to Barry Habib of the Mortgage Market Guide, is the "Adjustable Rate Mortgage" (ARM). With adjustable rate mortgages, the start rate is lower than on a fixed rate mortgage, but the rate can change and payments may increase over time. An interest-only adjustable rate mortgage makes the short-term payment savings even greater, but has an additional element of rate change risk.

Another type of interest-only loan is commonly called the "Option ARM." This loan gives you the option to make a regular payment covering principle and interest, an interest-only payment, or even a payment that does not cover the full amount of interest due. In this case, the unpaid interest is tacked on to the loan balance, which actually increases the outstanding loan amount over time. This is known as "negative amortization." For example, a $200,000 loan could have a minimum payment due of only $333, which is a whopping $867 monthly payment reduction compared to a normal loan! It's little wonder that these loans have become so popular.

But the attractive low payment comes with a vicious kicker, since you are adding tens of thousands of dollars to the balance you owe on your mortgage. Meanwhile, you have to hope that you can keep your loan balance neck-and-neck with home appreciation rates so you don't end up "upside down" on your home, owing more than it is worth. You're living on borrowed time….It's almost like treating your home as a credit card!

The moral is that there is no free lunch here, my friends. All that happens with interest-only loans is you put off when the real bill arrives. And when it does come—when the principal payments kick in—you are going to be hit with a big hike in your mortgage bill. Interest-only mortgages truly require some massive leaps of faith—an optimism that often turns out to be misplaced, and sometimes even ruinous.

Borrowers Rights

The borrower has rights when they apply and close on mortgage loans.

Disclosures to Borrowers

- Good Faith Estimate
- Truth in Lending Disclosure Statement
- Rate lock disclosure form
- Disclosure that moneys held for appraisal and credit will be in trust account.
- Disclosure that you have the right to transfer certain reports to another lender such as appraisal.
- ARM disclosure
- Right to know if lender is licensed and bonded
- Right to stop doing business with lender
- Right to know costs, rate, type of loan and loan amount within THREE days of application date
- Right to have a lender that is not misleading or deceiving
- Right to file a complaint

Choosing a Lender

It is important when choosing a lender to look for the following:

- Lender is licensed and bonded in Washington State
- Lender has license number on all correspondence
- Disclosure… lender provides a good faith estimate within 3 days and it is close to the actual rates and fees on the HUD statement
- The lender explains the terms of the loan.
- Lender returns calls

Regulation of Lenders and Agents

Mortgage brokers are under the Department of Financial Institutions in Washington State. Even though the market has changed, there are still fraudulent lenders.

Washington State has passed the Mortgage Broker Practices Act. It is the law that governs mortgage lenders in this state. Lenders must take a test, take continuing education and be fingerprinted. Real estate agents can also be lenders but they must meet the requirements and have full disclosure with prospective borrowers.

Department of Financial Institutions www.dfi.wa.gov
Real Estate agents are regulated by the Department of Licensing www.dol.wa.gov. A real estate agent could be violating license law if found to be misrepresenting information on a transaction.

Resources

Don't borrow Trouble Hotline www.ci.seattle.wa.us/housing/predatorylending
Community Home Ownership Center (206) 587-5641
Mortgage Default Counseling Services
Fremont Public Association (206) 694-6766
The Urban League of Seattle (206) 461-3792
The Center for Responsible Lending has brochures http://www.responsiblelending.org/
Legal assistance King County Neighborhood Legal Clinics (206) 624-9365
Department of Financial Institutions (800) 372-8303 www.dfi.wa.gov
U.S. Housing and Urban Development (800) 877-0246 http://portal.hud.gov/portal/page/portal/HUD
There is also a website to help homeowners . www.wahomeowners.com

Beware of Loser Loans Quiz

Use the answer sheet at the end of the quiz! Thanks

1. *Subprime loans are typically for borrowers that cannot qualify for a prime loan due to ________________.*
2. *A predatory lender often applies rates and fees to take advantage of ____________________________.*
3. *There **IS / IS NOT** a difference between sub-prime and predatory lending.*
4. *Frequent refinancing of a loan can be considered _______________.*
5. *Some investors are buying short sales and attempting to "flip" before closing which is considered ________________.*
6. *In Washington State, a buyer purchasing a fixer to sell in a short time is required to have a ____________________.*
7. *When a lender receives a rebate for higher interest loans it is called a ____________ ___________ __________.*
8. *Some lenders do not disclose the true terms and rates of a loan including a _______________ ______________ .*
9. *Some lenders "fudged" on the buyers income on loans commonly referred to as ___________ ___________.*
10. *Just because a loan required limited or no documentation, it is considered fraud if a borrower lies on the application.* ***T or F***
11. *Some loans have had ARM readjustments that would cause payments to be too high to afford.* ***T or F***
12. *Some lenders were known to _________________ borrowers into signing loan documents without understanding the terms.*
13. *There is a new Good Faith Estimate form that requires that the estimates are in line with the HUD form at closing.* ***T or F***
14. *It is illegal to __________ borrowers that attend the same church using the affiliation to build false trust.*
15. *Selling a property higher than the true market value using an inflated ______________ is fraudulent.*
16. *Getting cash back at closing on a purchase mortgage has not been legal even though "everyone" was doing it.*
17. *A property with a higher loan than the market value is commonly referred to as __________________*
18. *Some _____________ have been known to steer a homeowner to a high cost lender for construction loans.*
19. *Because many homeowners do not have equity to sell, the ________________ _________________ business may grow.*
20. *______________ _______ ____________ tactics should go down because of the new HUD and Good Faith Forms.*
21. *When a lender adds other products like credit life insurance to a loan that can be called _____________.*
22. *Foreclosure insurance is _____________. It is not a credible investment.*
23. *The borrower has the right to have a _____________ _____________ ___________ /*
24. *The Good Faith estimate must be provided within ________days of applying for a loan.*
25. *The Borrower has the right to receive an ________ disclosure when getting an Adjustable Rate Mortgage.*

26. *The Borrower has the right to have all moneys held in a _______ ______________.*
27. *The lender must have the ____________ number on all cards and correspondence.*
28. *Lenders must be ________in Washington State.*
29. *When a lender locks an interest rate the borrower should have a ___________ ___________ disclosure form.*
30. *Mortgage lenders are under the Department of _____________ _________________.*
31. *Complaints against lenders are filed with the Department of _________________ _____________.*
32. *The website for the Dept of Financial Institutions is ____________________*
33. *The Law that governs mortgage loans in Washington State is the ______________ ____________ __________ ____*
34. *Name one mortgage default counseling service __________________________________*
35. *Real estate agents are regulated by the _______________ of ____________.*
36. *Even though the mortgage market has changed dramatically with the economic slump, there are still _______ lenders.*
37. *Real estate agents can be lenders but they must meet all requirements and have full _______________.*
38. *The documents on short sale transactions can be found at the Department of Licensing website and NWMLS* ***T / F***
39. *Beware of lenders that are unregulated like "private lenders" and those with little regulation known as ______ ______*
40. *I have gone to the following links to learn more about predatory lending or Short sales _______________________*

As a part of this class you are to click on a link and go to learn more!

The Short Sale Guides from Dept Licensing http://www.dol.wa.gov/business/realestate/renews.html
The Center for Responsible Lending website. http://www.responsiblelending.org/
Wikipedia article on Predatory Lending http://en.wikipedia.org/wiki/Predatory_lending
Dept of Housing and Urban Development Videos! http://portal.hud.gov/portal/page/portal/HUD

Use the Answer sheet below for your answers to the quiz! Thanks

PROFESSIONAL Direction INC

Answer Sheet Beware of Loser Loans

1		21	
2		22	
3		23	
4		24	
5		25	
6		26	
7		27	
8		28	
9		29	
10		30	
11		31	
12		32	
13		33	
14		34	
15		35	
16		36	
17		37	
18		38	
19		39	
20		40	
Comments you want to add regarding the discussion questions.			

I attest that I have read the materials and have answered the questions.

Date Course Started _______ Date Course Completed _______________

Print Name________________Company _______________ Signature___________________

PROFESSIONAL Direction, 13148 Holmes Pt Dr NE, Kirkland WA 98034 clockhours@gmail.com

PROFESSIONAL Direction INC

Mandatory Evaluation

Did you read the material in the booklet on this date? YES / NO
Did you complete the quiz and attach answer sheet? YES / NO
Did you enclose Tuition ($30 for 3 hrs) or use pay pal YES / NO
Did you fill out and sign this form? YES / NO
Paid by Check or Visa/MC # _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ _ exp _ _/_ _print clearly PayPal avail on website.
Why did you choose to take this course? Topic? Time? Cost? Ease? Other?
A "clock hour" is 50 minutes. This 3 hour class should take about 2 hrs 30 min. How long did it take you to complete the course? __

	No			Yes	
Will the material you learned improve your performance?	1	2	3	4	5
Were the course materials easy to follow?	1	2	3	4	5
Were the course materials relevant to your profession?	1	2	3	4	5
Were your objectives met by attending the class?	1	2	3	4	5

What are 3 things that you learned from the course?
1. ________________________ 2. _________________________________ 3. _______________________________________

Beware of Loser Loans		
Print Name CLEARLY	Signature	Company
Address	City Zip Code	Phone
Twitter name @	Email	
License Renewal Date		Date class taken

Thanks for taking this class! I really appreciate the agents that take clockhours from my school! I am always working on my classes and writing new ones! Thanks, Natalie

Professional Direction, 13148 Holmes Pt Dr NE, Kirkland, WA 98034 email: clockhours@gmail.com

www.clockhours.com