Santa Cruz Sentinel
January 11, 2004
Sunday

How to avoid predatory mortgages

Last week, attorney Pamela Simmons shined a light on predatory lending in Santa Cruz County.

This week, she and the experts at the Center for Responsible Lending will share red flags that should point to potentially predatory mortgages.

Here we go.

Simmons advice is pretty straightforward. It reads like Mortgages 101: Know your credit rating and study up on the types of loans that are out there.

HEATHER BOERNER

Gimme Shelter

She recommends studying for as long as it takes to figure out which loan will work for you.

"The lowest payment option is not always the best option," she said.

A higher-cost loan may have the most appealing terms in the long-run.

Next, really read everything.

"People should ask for a copy of all of their loan documents *before* they sign them," she said. "Borrowers generally feel pressure to sign the loan documents without understanding what they say. They should carefully review them and ask a third party their questions before they sign."

But you should also know other things. The Center for Responsible Lending is part of the Center for Community Self-Help, a North Carolina-based nonprofit that has provided $1.6 billion in financing to help more than 24,000 under-served families own homes or small businesses.

By their estimates, home buyers have lost $16 million in equity nationwide by agreeing to predatory loans.

Here are their top seven red flags:

Single Premium Credit Insurance: Credit insurance premiums should be paid monthly, not in a lump sum upfront, the center states. For instance, one type of credit insurance, credit life, is paid by the borrower to repay the lender should the borrower die. It can be useful when paid for on a monthly basis. When it is paid for upfront, however, it does nothing more than strip equity from homeowners.

High Fees: The borrower should not be charged fees greater than 3 percent of the loan amount (4 percent for Federal Housing Administration or Veterans Administration loans). "Points and fees that exceed this amount, except third-party fees like appraisals or attorney fees, take more equity from borrowers than the cost or risk of subprime lending can justify," the center states on its Web site.

Prepayment Penalties: Subprime loans often have prepayment penalties — that is, penalties for paying off your loan through refinancing or other means within a given period of time. It's a common practice, but the Center for Responsible Lending takes the tack that prepayment penalties lock home buyers into higher interest loans, when they might otherwise be able to refinance into a conventional loan.

The center states that only 2 percent of home buyers accept prepayment penalties in the conventional home-buying market, while 80 percent of subprime borrowers do.

But this item is controversial, since many above-board subprime lenders also require prepayment penalties.

Steering: Lenders should make sure that borrowers get the lowest-cost loan they qualify for, but the center states that subprime lenders often steer their clients toward higher-cost loans than they could qualify for at a conventional mortgage lender.

See **BOERNER** on **PAGE E2**

The center states mandatory arbitration 'insulates unfair and deceptive practices from effective review.'

Boerner

Continued from Page E1

"As Fannie Mae and Freddie Mac have shown, subprime lenders charge prime borrowers who meet conventional underwriting standards higher rates than necessary," the center states.

Mandatory Arbitration: This is the hottest so-called predatory lending technique on the market. Recently, Freddie Mac, the mortgage buying giant, recently came out against mandatory arbitration, which prevents disputes from going before a judge.

The center say this part of a mortgage "insulates unfair and deceptive practices from effective review."

"Arbitration can also involve costly fees, be required to take place at a distant site or designate a pro-lender arbitrator," the center states.

Flipping: So-called "flipping" i the practice of repeatedly refi nancing home mortgages at high cost subprime rates and with extr fees.

"One of the worst practices is fo lenders to refinance subprim loans over and over, taking ou home equity wealth in the form high fees each time, without pr viding the borrower with a net ta gible benefit," the center states.

In other words, if you have a subprime mortgage, don't keep refinancing at high fees. Use refinancing to get out of subprime mortgages and into conventional