



Abusive and Predatory Lending

From the Office of Minnesota Attorney General Lori Swanson

The Attorney General's Office warns consumers to beware of abusive and predatory lending practices. Offers coming from abusive lenders or brokers may seem like a good deal initially, but they often bring future hardship.

Predatory and abusive lending can take many forms, but generally these lenders and brokers take advantage of people in difficult financial situations. Predatory lenders and brokers may target first-time homebuyers or borrowers looking to refinance their mortgage.

Abusive lenders and brokers prey on consumers' lack of financial knowledge. The Attorney General's Office cautions consumers to be very wary of loan offers with:

- **High interest rates and fees.** Loans may contain high closing costs and other hidden fees. These unreasonable fees may appear in loan origination or underwriting fees, broker fees, and transaction and closing costs. Many of these fees are negotiable. Don't be afraid to ask your lender or broker to explain the basis for any fee that appears on your loan paperwork.
- **Small monthly payments with a large balloon payment at the end of your loan period.** Sometimes lenders stretch out payments so that a large unaffordable payment is left at the end. This, unfortunately, can force consumers to either sell their home or obtain another high interest loan to make the final payment. Make sure to pay special attention to how payments will be made over time.
- **Inflated Appraisals.** Whether you are a first-time home buyer or a homeowner looking to refinance, be very careful of appraisals that overstate the value of your property. Appraisals are only estimates of the property's worth.

Suppose, for example, that you get a \$200,000 loan based on an inflated appraisal. If you subsequently decide to sell your home, you will still owe the lender \$200,000 even if the house only sells for \$160,000.

- **High loan-to-value.** Be extremely cautious of lenders or brokers who encourage you to borrow more than 80 percent of your home's value. A high loan-to-value-ratio puts both the home and the consumer's financial record at great risk.
- **Adjustable Rate Mortgages (ARM).** As opposed to a fixed rate loan, the interest rate on ARMs fluctuates according to the market. Watch out for ARMs with low introductory rates. Just because you can afford mortgage payments at the present interest rate doesn't mean that you will be able to do so if the interest rate rises.

LOOK FOR PREPAYMENT PENALTIES

These fees penalize consumers wanting to pay off some or all of their entire loan early. A high prepayment penalty can force consumers to stay in high interest rate loans because it would be too expensive to pay the penalty. Under Minnesota law, the terms of the penalty must be fully disclosed to the borrower at the time of application, and the lender must offer you an alternative loan without a pre-payment. The penalty can only be up to two percent of the unpaid principal or 60 days interest on the unpaid principal. A penalty cannot be imposed beyond 42 months of the loan, or upon the payoff of the loan as a result of the sale of the property. Minnesota law on pre-payment penalties **does not** apply to all loans made in this state. Some loans may be subject to stiffer penalties as stipulated in the loan agreement.

Resources Regarding Abusive and Predatory Lending

If you have a complaint about a lender or believe to have been the victim of an abusive lender or broker, contact the following resources.

Minnesota Department of Commerce

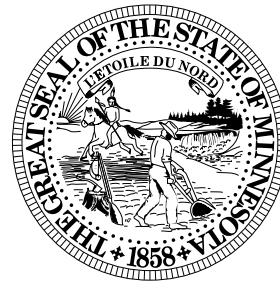
85 7th Place East, Suite 500
St. Paul, MN 55101
651-296-2488
1-800-657-3602
www.commerce.state.mn.us

Federal Trade Commission

Consumer Protection
CRC-240
Washington, D.C. 20580
1-877-FTC-HELP
www.ftc.gov

Better Business Bureau

2706 Gannon Road
St. Paul, MN 55116
651-699-1111
1-800-646-6222
www.bbb.org



The Minnesota Attorney General's Office may be able to resolve problems that are the result of predatory or abusive lending. For more information, to request a free copy of *The Home Buyer's Handbook*, or to file a complaint, you may contact us as follows:

Office of Minnesota Attorney General

Lori Swanson

1400 Bremer Tower
445 Minnesota Street
St. Paul, MN 55101
651-296-3353
1-800-657-3787
TTY: 651-297-7206
TTY: 1-800-366-4812