



Question: How can I avoid predatory lending when I am looking for a loan to finance my new home purchase?

Predatory lending refers to the practice of taking advantage of borrowers through unfair and abusive mortgage lending practices. Homebuyers and others who may be inexperienced with getting a home loan or are likely to be influenced by a high-pressure sales approach, may pay higher fees and interest rates than their credit history warrants. Since not all loans are appropriate for every buyer, it is important to be aware of the warning signs that you may be a candidate for a predatory loan.

A poor credit history can pose a challenge when seeking a loan. The lower your credit score, the more risk is involved in giving you a loan. Fees and loan rates may be higher for higher risk borrowers.

If you are offered a loan with the promise up front that you are “guaranteed to be approved,” be very cautious. All lenders must review your information before approving a loan. If you are offered a loan with no down payment, be sure you understand the terms of the loan including whether there will be a first loan and a second loan with different rates and if you will be required to pay for mortgage insurance?

Adjustable rate mortgages are usually not appropriate if you have a history of trouble keeping up with loan payments. A low introductory rate sounds great but, when the rate goes up, you may find it difficult to meet the new payment amount on a monthly basis. Always ask to view the good faith estimate and truth in lending document when you apply, but most importantly make sure you read all the closing documents to ensure you understand how the rate will adjust and when.

Unjustified high interest rates and unnecessary or excessive fees could be signs of a predatory loan. Be sure the fees you are being quoted on your loan are typical of the local market and other buyers like yourself. On many loans the fees are negotiable and should be completely disclosed to you before you sign any loan papers.

If the sales approach of the lender seems aggressive to you, take that as a sign to be cautious. Be suspicious of a sales pitch that tells you that this loan is all you may be qualified to receive. You should take responsibility for your decision. Take a copy of your credit report and credit score, interview two or three lenders and find the loan and terms that are right for you.

Here are some important questions to ask when shopping for a loan.

- What is the best interest rate available in our market today? Do I qualify?
- Is this a fixed rate loan or an adjustable rate loan? If adjustable, how often does it adjust and at what increased rate?
- What is the length of the loan?
- What are the total loan fees?

You should check on the qualifications of your lender. The Better Business Bureau, local housing advocacy groups and government agencies that oversee the mortgage industry, are good sources of information. Trust is the key to working with a lender. Ask your REALTOR® for suggestions on how to find the most qualified lenders for your situation.

Getting educated about the loan process and your options is the best protection against falling victim to a predatory lender. If you believe that you have been taken advantage of, contact the Federal Trade Commission ([www.ftc.gov](http://www.ftc.gov)) or your local District Attorney's office for advice. You can also call the Colorado Mortgage Lenders Association, at 800-611-4832 x4 to ask questions, inquire about a lender, or file a complaint.

This article was contributed by the Colorado Association of REALTORS®.  
Special thanks to the National Association of REALTORS®, the Colorado Mortgage Lenders Association and the Colorado Division of Housing for information included in this article.