

Predatory Lending

Rashmi Rangan

Michael Watson owned his home free and clear. He often thought about repairing, but put it off. He had a small fixed income of \$800/month. *Mike is the prototypical prey to a predatory lender.* One warm afternoon as he was sitting in his rocking chair on the porch, a friendly contractor engaged him in earnest dialogue about the condition of his home. He showed him around the neighborhood and all the homes he had repaired. He offered to give Mike a free estimate. The estimate sounded rather reasonable at \$15,000--new roof, new kitchen, and that leaky bathtub would finally be fixed.

But there was a snag. Mike had no savings and no credit. "No problem!" said the contractor. *This is just one way a home improvement scam is initiated.* He knew a wonderful loan officer. She even came to the house! She explained everything. She brought lots and lots of papers. She looked honest and very helpful. She told Mike that because of his low income he would not quite qualify, therefore it made sense to show additional rental income. Mike told her that he didn't really have any other tenants, but she insisted that it was okay because it was "... just to make the loan work." *This is a common practice. The consumer is being asked to perpetrate a fraud. Later, this is used as a weapon against the consumer.*

Mike signed where he was told to sign. He did not know that he had to pay \$500 a month for 10 years--nearly \$60,000! *Another practice is to require such a high monthly payment that the consumer will quickly fall behind. This will enable the lender to refinance the loan and charge more fees and make it more expensive. This is called "flipping."*

How could he live on just \$300? Very soon Mike realized he had been duped. The repairs were never done. *Almost all home improvement scams result in the homeowner being stuck with payments for work that is never completed.* The nice lady was still very nice. She sympathized with Mike but said there was nothing she could do. Mike had to go after the contractor. She could help him refinance the loan so that his payment would be lower. Mike agreed. He paid nearly \$8,000 in closing costs and over \$8,000



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in premiums for credit life insurance. The same costs he had paid less than six months ago! Mike could barely make the now lower payments at \$400. Then came a medical emergency.

He kept falling behind on his payments. There was so much confusion--the lender suggesting Mike missed 6 payments and Mike showing all his receipts that proved he had missed only two payments. Foreclosure was inevitable. The home went to a Sheriff sale even though Mike filed bankruptcy. *Generally, a bankruptcy protects the consumer. However, the lender can petition the court for a stay. If the court grants it, the protection is lifted and your home can still be foreclosed.*

Mike was cornered. He had to quickly refinance or else lose the home. Because of his by now ruined credit rating, he paid high closing costs, his interest rate was large and he had a 5-year balloon. *Your monthly payment does not reduce your principal much, especially in the first five years. When the loan matures, you owe almost all the principal at once. So, Mike would have had to pay \$47,000 at the end of 5 years.* He lost his home. The lender sold it for \$60,000. Mike got nothing!

What could you do if you were in Mike's position? Delaware State Housing Authority has a 3% home improvement loan. Check it out. If you qualify for it, get it. If not, work on your credit report. Take a look to see what needs repair. Get on a budget and fix your credit.

Once repaired, shop around for a loan. Next, find a good contractor. Check him or her out. Ask to meet with his or her customers. If you like the work, hire him or her. Don't pay the full amount up front. Make only a partial payment, with a condition that the balance will be paid upon satisfactory completion. If you find yourself trapped in a predatory situation, seek help. If you don't understand something, ASK until you do understand what is going on. Don't stop with the one all-important question to you, "What will my monthly payment be?" Look at the truth-in-lending documents. It tells you that if you borrowed some money at a certain percentage for a said period of time, you will pay back so much.

As an advocate, I fear for Delawareans. I was not the least bit surprised when Delaware granted its blessing to charter a bank which said it will charge 200% APR on loans. We have no usury laws. While other communities have enacted laws to curb predatory practices, it is not even on Delaware's radar screen.

Within this framework, abuse thrives. Mike is not alone. There is a long list of victims; people of all types who have suffered from predatory lending practices.

Eduardo went to a car dealership. He wanted to buy a car. He told the dealer he did not want a lease. Eduardo spoke very little English. He could barely read the language leave alone understand the legalese. He signed the papers. Lo and behold! He had leased the car! After paying \$300 per month for 5 years, he thought, "by now I have paid the principal and interest." So he wrote to the dealership saying, "Because I have paid on this car, I am not paying you any more money." The dealership promptly called and threatened him with auto theft. *If you cannot read or understand the papers you are signing, go to your pastor, friend, or one who you know cares about you. Don't sign anything you don't understand.*

Mary had a credit card from a lender notorious for abusive practices. Although Mary always paid her bills on time, this lender waited until after the due date to apply her payment. *You may want to send your payment by certified mail, return receipt requested.* Now, the lender could charge a \$29 late fee. Her minimum payment was \$30. Each month, the late fee is added. She soon exceeded her \$300 credit limit. So each month she is charged an additional \$29 fee for going over the credit limit. If she were to pay just the fees it would total \$58. Yet her minimum payment is still \$30.

Darlene was behind on all her bills--mostly credit cards and automobile loan. It wasn't long before abusive collection calls began. One lender told her to write a check for \$975. Obviously the check bounced. She had told them she had no money. Then he threatened to have the police arrest her for writing a bad check. Now the solicitation calls have begun. Darlene has a 5% 30-year first-time homebuyer loan. She has been making her mortgage payments on time for the past several years. Not a very good financial planner, she is looking for an easier way out. Each week she calls me to find out if the refinance offer is something she should consider. She involves me in three-way calls. What surprises me is the aggressive sweetness of the loan officers. One told her, "Rashmi does not want you to have what she has!"

Martha called to ask if she could be charged \$100 for cashing her paycheck of less than \$600. I could not believe my ears!

