
NEWS ON TAP

The NEWS ON TAP Newsletter is part of OHCD's Housing and Disability Technical Assistance Program (TAP) concerning issues related to housing for persons with disabilities in the City of Philadelphia. *November 2007*

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Borrowers Beware

By Peggy Robertson

If a deal sounds too good to be true, it usually is!

Anyone who is going to borrow money needs to beware of Predatory Lenders. Predatory Lenders target people they perceive as vulnerable, and generally speaking, people with disabilities fit into this category. Predatory lenders take advantage of vulnerable borrowers by charging excessive fees and using deceptive practices.

What is Predatory Lending?

Predatory lending is a term used to describe a wide range of shady lending practices. This often results in borrowers who are trapped in more debt than they can afford and do not receive any net benefit from the loan. Predatory lending can take on different tactics, but simply put, it is any loan that is not in the best interest of the borrower. So-called "predatory"

lenders take advantage of borrowers through hidden fees and other unethical practices and burden borrowers with debt they will never be able to repay.

Predatory lenders pursue people who are strapped for cash and usually charge high interest rates and fees and knowingly lend more money than a borrower can afford to repay. They also target people with bad credit, limited credit history, low-income high-risk borrowers, people who are in foreclosure, people who live in impoverished or minority neighborhoods, people who are elderly, people who lack financial management skills or who need cash because of a financial crisis.

Homeownership Counseling Agency of Delaware Valley

Allison Hughes, Executive Director of the Homeownership Counseling Agency of Delaware Valley (HCA), has come in contact with many people who have been victims of predatory lending. HCA advocates for allowing low- and moderate-income households greater

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access to affordable mortgage financing and loan opportunities (purchase, home improvement and refinancing).

HCA's mission is to promote the professional development and skill capacity of housing counselors. One way they do this is by offering training certification programs and services in a number of areas including Anti-Predatory Lending, Delinquency/ Default and Foreclosure Prevention and Intervention. In addition, HCA provides remediation to homeowners who have been victims of predatory lending through their Home Equity Loan Preservation Program (HELPP), a 'rescue' loan effort.

Ms. Hughes explained HCA's role. "When referrals come to HCA, our staff meets with a client, they conduct a preliminary assessment of the client's financial situation and then process the client's application. A loan panel meets to determine if the client's case is appropriate for HELLP and if this will really meet the client's needs. If the

client's application is approved, the staff at HCA will determine and then implement a case action plan. Our counselors are trained to do pre-loan counseling and help clients remediate and resolve bad loans. In some cases, clients require frequent meetings and are provided with intensive case management, counseling, and extensive budget review. HCA does a case plan for every client, even if they aren't ready for a 'rescue' loan. We give them a plan of action to help prepare them to participate in HELLP. The process for our clients is about education. For example, if a client's credit is in poor standing, we teach that client how to repair credit and create a budget. We help clients understand the situation they are currently in and then identify the root causes of their circumstances and why their finances are in crisis. Our clients must commit to making financial changes so they avoid getting into the same situation again."

Ms. Hughes continued, "Before we can help with a loan, we need to make sure our clients have the capacity to make the

payments at our interest rate. If clients are not making mortgage payments, we want to find out if they are attempting to pay some of their other bills such as utilities or taxes. This gives us a sense of their financial responsibility. Sometimes we have to turn clients down. When this happens, we advise them to continue working with their Neighborhood Counseling Agency. We allow those clients to establish a track record within a six month to a year period and we monitor their progress to make sure they are getting support and managing their money. Then they can come back to us."

Case Study

Ms. Hughes shared the story of a woman with a disability who was a victim of predatory lending. "The woman had received a lump sum of money, about \$70,000, a settlement from a Workman's Compensation claim. She decided she wanted to purchase a home. At that time, the woman was receiving an income of \$600 from SSDI. Because of her poor credit and limited income, she was led to

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believe by the broker that she contacted that she did not qualify for a mortgage. The broker then said he had a property he could sell to her. The purchase price for the home was \$90,000. The broker took the \$70,000 from the woman, part of which went toward the closing costs. The mortgage he set up for her included a balloon payment of \$35,000 due at the end of a year. When the year was up, she was unable to pay and foreclosure proceedings began. That was when HCA stepped in."

Ms. Hughes explained, "The woman contacted a lawyer from the Aids Law Project of Pennsylvania, who in turn spoke to Community Legal Services about the case. Legal Services told the Law Project about our programs, and they then referred the woman to us to participate in HELPP. HELPP provides an opportunity to refinance high cost unaffordable loans with a more affordable loan product. This enables the homeowners to regain control over their finances and increase the likelihood that they will

stay in their home. The program is funded by two primary sources: The Philadelphia Office of Housing and Community Development and the Neighborhood Transformation Initiative. We have a contract with the city and are able to offer these services for free."

Ms. Hughes continued, "This one woman's case is an example of how vulnerable people are. In hindsight, the woman should have considered what her income was, what savings she had, and what she could realistically come up with for a down payment, mortgage payments, maintenance expenses and taxes. Ideally, a good realtor or broker should have convinced her to buy a less expensive house. The broker who sold her the house did not spell any of that out for her. What he did was legal, but morally wrong. He was entitled to receive the balloon payment on the balance of the mortgage. Predatory loans hit when someone is vulnerable. Unfortunately, in too many cases the loan is for much more than the person really needs to borrow. The woman's

case did not go to trial. HCA was able to get the woman a new loan with a 7.6% interest rate that covered the \$35,000 needed for the balloon payment as well as an additional \$10,000 for other outstanding bills. The woman was able to stay in her home by getting a roommate and she now has an affordable payment."

Prime and Sub-Prime Loans

Predatory lending generally occurs in the sub-prime mortgage market to people who don't qualify for prime loans. Prime loans are for people with good credit who have the ability to repay the loan. Ms. Hughes explained what a sub-prime loan is. "When lenders are deciding to make a loan, they must determine how much money is at risk for them and the probability of whether or not the loan will be repaid. They do this by checking on a person's history, whether or not the person has a track record of stable income and what the person might have as collateral. After this information is collected, a person then receives a credit score."

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A FICO[®] credit score is expressed in a numerical value usually ranging between 300 and 850, with the low score representing a high credit risk and the high score representing a low credit risk. A score above 720 is considered to be "good credit", and a score below 600 is considered to be poor. Many loan sources point to a FICO[®] score of 620 as the cutoff point for loan eligibility. Any FICO[®] score lower than 620 does not automatically preclude a prospective homebuyer from obtaining a home mortgage loan, but they are usually only able to acquire a mortgage loan from the private sub-prime market where mortgage interest rates tend to be higher due to the credit risk represented by the borrowers.

Prime banks make prime loans to people who have scored 620 points or above. A low score indicates that the borrower has a lot of financial difficulties, which could be a result of divorce or poor management of money. A person who has had several bankruptcies or foreclosures is

considered extreme high risk. These last two categories of people end up paying a lot more on the dollar for a loan. Ms. Hughes added, "Not all sub-prime lenders are predatory lenders, but all predatory lenders are sub-prime lenders."

Warning Signs of Potentially Bad Offers

Borrowers should be beware of different tactics predatory lenders use. Although not all of these factors mean that a loan is bad, a borrower should think twice and ask questions if a lender does the following:

- Calls you on the phone or comes to your door to sell you a loan
- Talks you into a loan for more than the amount you think you need to borrow
- Pressures you to sign quickly
- Charges high fees
- Charges a penalty for paying off the loan early
- Requires frequent refinancing, with high fees hidden in the newer loan; tells you that refinancing can solve your credit or money problems
- Charges credit insurance premiums

that must be paid up-front in a lump-sum, usually from the proceeds of the loan

- Uses balloon payments when the balance of loan is due in a lump sum at a specified date, usually at the end of the term, which often requires refinancing
- Provides pre-notarized loan documents, or processes documents with information not filled in or contains information that is not true
- Requires you to purchase insurance in order to get a loan
- Tells you that they are your only chance of getting a loan or owning a home
- Includes cost or loan terms at closing to which you did not agree
- Encourages you to lie about your expenses, income, or cash available for down payments in order to get a loan
- Uses "bait and switch" tactics, which is when the lender may promise one type of loan or interest rate but,

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with-out good reason, gives you a different one

Avoid Being a Victim

When shopping for a loan, be an educated borrower by doing the following:

- Learn about the types of loans available and shop around for the best loan types
- Figure out how

much money you really need to borrow

- Ask questions—lots of questions—and make sure you understand all the terms
- Negotiate for better terms and get all the terms in writing
- Don't let anyone rush you into a decision
- Don't sign until you know exactly what you're signing and

why and get copies of everything you sign

- Contact authorities immediately if you think a lender is taking advantage of you

If you believe you have been a victim of predatory lending practices there are Federal, State and Local agencies that can help. Please refer to the list of agencies below.

Contact Information

www.attorneygeneral.gov/consumers.aspx?id=255: Pa Attorney General's Bureau of Consumer Protection

www.banking.state.pa.us: PA Department of Banking – 1-800-722-2657.

www.hud.gov/complaint/housediscrim.cfm; HUD's Office of Fair Housing and Equal Opportunity -1-800- 669-9777.

www.palegalaid.net/legal_help_finder.htm: PA Legal Aid Network

www.dos.state.pa.us: PA Department of State – to make Realtor, appraiser and title agent complaints

www.philalegal.org: Philadelphia Legal Assistance 215-981-3800

www.clsphila.org: Community Legal Services 215-227-2400

www.hcadv.org: The Homeownership Counseling Association of Delaware Valley at 215-731-1723

www.hud.gov/offices/fheo/lending/predatory.cfm

www.hud.gov/offices/hsg/sfh/pred/predlend.cfm

www.hud.gov/local/pa/homeownership/predatorylending.cfm

www.dontborrowtrouble.com: Freddie Mac's Anti-Predatory Lending Site:

www.moneysbestfriend.com: Your Money's Best Friend from the Pennsylvania Office of Financial Education offers tips and tools about managing money.

www.responsiblelending.org: The Center for Responsible Lending

www.ncsl.org: National Conference of State Legislatures



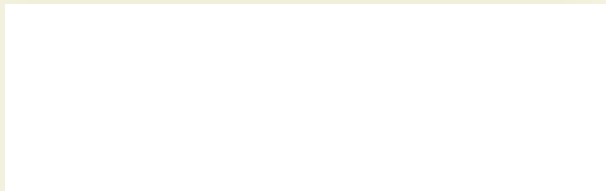
The Home Finder

The Home Finder is an interactive feature of the NEWS ON TAP website that allows developers/managers of OHCD-funded housing to directly post the availability of accessible units. Individuals with disabilities, case workers, advocacy and service organizations can access the Home Finder to look for available accessible units. The Home Finder, directly accessed at www.phillyhomefinder.org, provides the following information:

- **Are you looking for accessible housing?**
[View a list of vacant accessible housing units in Philadelphia](#)
- **Are you a property manager or developer?**
[Add new units, edit a current listing, or delete a listing.](#)
- **Need Help Using the Home Finder?**
[Learn all about the Home Finder and how it works.](#)

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