

Tipsheet: Predatory Lending

Predatory lenders prey on consumers' lack of financial knowledge. Knowing your rights and being informed are the best ways to protect yourself from financial ruin.

Foreclosure Facts

- Foreclosures affect entire communities: they devastate families, create abandoned properties, lower property values and dampen local economies.
- For the past 20 years, foreclosures in Hennepin County averaged between 1,000-1,500 per year. In 2006, foreclosures doubled to more than 3,000.
- From 2003 to 2006, in the Twin Cities metro area, foreclosures increased 250 percent (about 2,000 to 7,000).
- Since January 2006, more than 2,500 Minneapolis homes were sold at sheriffs' foreclosure sales.

Subprime Lending—What You Need To Know

Subprime loans:

- Account for more than 20 percent of all new mortgages nationwide
- Are disproportionately made in low-income communities and communities of color
- Are driving predatory lending
- Are usually for people with blemished or limited credit histories
- Carry a higher interest rate than prime loans to compensate for increased credit risk
- Have a one in five chance of foreclosing (as of 2006)

Subprime lenders:

- Make more of their total profits on home refinance loans than prime lenders
- Are more likely to use "consumer," "finance" and / or "acceptance" in their lender name
- Beware Of
- Adjustable rate mortgages (ARMs)
- High interest rates and fees
- High loan-to-value (borrowing more than 80 percent of the home's value)
- Inflated appraisals
- Prepayment penalties
- Small monthly payments with a large balloon payment at the end

Preventing Foreclosure Tips

- Ask your lender or broker to explain any fees.
- Contact your lender or a mortgage foreclosure program if you're behind on your payments.
- Don't be pressured into signing a loan document.
- Have a lawyer or housing counselor review your documents, especially for a refinance loan.
- Know your rights. New legislation was passed to further protect Minnesota consumers. Read a summary of the new [anti-predatory lending law](#).
- Make sure the agency or broker is licensed by the Minnesota Department of Commerce.
- Make sure you can afford all your payments throughout the entire life of the loan. Special teaser rates may jump significantly after just a short time.
- If you've already foreclosed, be very cautious of "investors" offering to "save" your home.



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Resources

- [Better Business Bureau](#): 651-699-1111
- [FamilyMeans](#): 651-439-4840
- [Federal Trade Commission](#) (Consumer Protection): 1-877-FTC-HELP
- [FHA Resource Center](#): 800-225-5342
- HUD National Servicing Center: 888-297-8685
- [Legal Services Advocacy Project](#): 651-222-3749
- [Minnesota Attorney General's Office](#): 651-296-3353
- [Minnesota Department of Commerce](#): 651-296-2488
- [United Way 2-1-1™](#)

This free and confidential 24-hour information/referral line can connect you to over 40,000 community resources. Just dial 2-1-1. Cell phone users can call 651-291-0211.

Sources: MN Attorney General's Office, U.S Department of Housing and Urban Development (HUD), Legal Services Advocacy Project
