Based on Wells Fargo's Hands on Banking ®

Project Pro$per
presents

Loans &

Predatory Lending

Participant Guide

The Hands on Banking® program is a free public service provided by Wells Fargo. You may also access the program anytime at www.handsonbanking.org & www.elfuturoentusmanos.org

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I. Loans

1.The Basics

A. A **LOAN** is money borrowed from a lending institution, store or individual to be repaid at a later time.

B. Loans are a very common way to borrow money, and there are many types of loans for which a person can apply, like:

Home Loans (Mortgages) 	**Mortgages are loans offered by lenders to allow consumers to buy homes they can't pay for upfront.**	**Personal Loans** 	**Personal loans can be used for any personal expenses and don't have a designated purpose.**
Auto Loans 	**This type of loan may be made by a lender such as a bank or car dealership to help you buy a vehicle.**	**Business Loans** 	**Small business loans are made to entrepreneurs and aspiring entrepreneurs that can help them start or expand a business.**
Student Loans 	**Student loans are offered to college students and their families to help cover the cost of higher education.**	**Pay Day Loans** 	**Payday or Cash Advance loans are short-term, high-interest loans designed to bridge the gap from one paycheck to the next, used mostly by borrowers living paycheck to paycheck. These products charge very high fees and interest rates and should be avoided. Having a budget will help you avoid the need for a Pay Day Loan.**
Home Equity Loans 	**Home equity loans allow the home owner to borrow money against the equity in their home for renovation projects or to pay off large debts. Equity is the value of a home minus the amount of any mortgage on the home. If your home is worth \$100,000 and you have an \$80,000 mortgage, then your equity is \$20,000.**		

C. Interest Rates

Lenders charge money for allowing you to borrow funds. This is called **Interest** and is usually expressed as a percent of the loan amount and shown as an **Annual Percentage Rate** (APR).

1. **Interest Rates** will vary from lender to lender and you want to make sure you understand which rate you are receiving.
    i. **Fixed Interest Rates**- the rates do not change during the term of the loan. This rate allows the borrower to accurately predict their future payments.
    ii. **Variable Interest Rates**- the interest rate will fluctuate over time with the market. This may result in the increase or decrease of your monthly payments.

D. Things to Remember

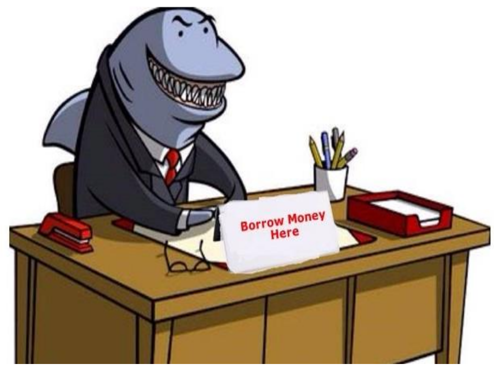
1. With a loan, you receive all the money upfront for your purchase.
2. Borrowers are given a predetermined length of time to repay a loan. This timeframe is called a **TERM**. The type of loan you receive may determine your term.
3. Loans are not like credit cards in that they are not considered revolving credit. Once you repay the loan, those funds are not available for use again.
4. Also, unlike credit cards, your monthly payments will usually be equal monthly **INSTALLMENTS,** or payments, until your debt has been fully repaid.
5. The application process may have a waiting period of a few days to a few weeks.

2. Choosing a lender the smart way:

A responsible lender can help you gain financial flexibility and achieve your goals.

1. Look for an established institution with a good reputation. Good lenders typically work for an established company with a good reputation.
2. Good lenders will put everything in writing, give you time to shop and compare costs and rates before you sign a loan agreement.
3. Ask a money-savvy friend, family member, or work associate for a referral or ask your local banker or employer.

3. What is predatory lending?



1. Predatory lending is when a lender will deceptively try to convince you to agree to unfair loan terms, or violate their terms in some way that will make it difficult for you to defend yourself against being subject to unexpected high fees or interest charges.
2. It's important to avoid predatory lenders and understand exactly what you're signing. Ask a reputable consumer agency not associated with the lender to help you review the loan agreement before you sign.
3. Remember that signing a loan agreement is a serious financial responsibility. Always carefully read and understand the agreement before you sign.

4. Here are some warning signs of a Predatory Lender:

A. Encouragement to include false information or signing incomplete loan documents.

1. Never sign a loan document with missing information, or a document that has been falsely completed.
2. Before you sign any loan papers, ask the lender whether the loan includes any charges for voluntary **CREDIT INSURANCE**. This is an optional insurance coverage for which an additional fee is charged which may repay the balance of a loan if the borrower dies, becomes disabled or loses their job.
3. If you don't want credit insurance, tell the lender. If the lender still pressures you to buy insurance, find another lender.

B. "Bait and switch"/ Teaser Rates Sales Tactics.

1. When a lender makes promises in order to make the sale, then cancels the promises after the sale. Question anything in the document that is not consistent with what you were told.
2. Make sure that the interest rates quoted to you are not **TEASER RATES**. These are when lenders offer you an initial interest rate for a number of years, after which the rate significantly increases.

C. Loan flipping

1. Loan flipping is when a lender persuades a borrower to repeatedly refinance a loan, sometimes offered to reduce monthly payments by continually extending the term of the loan. In the end, this will cost you more money due to higher refinancing fee over the term of the loan.

D. Excessive Fees for Bi-Weekly Payment

1. Some predatory lenders may charge you up to $1,000 for the "privilege" of paying your loan biweekly. Although this can decrease the total interest you pay over the life of the loan and the time it takes to pay in full, such accounts can often be set up for free or for a one-time fee of a few hundred dollars.
2. You can also simply make added payments each month as you are able to pay your loan off early and reduce the amount of interest paid over the life of the loan.

E. “No Credit? No Problem!” Advertisements

1. These are often warning signs of scams. Consumers responding to such ads are guided through a phony application process and may even receive fake loan approval documents.
2. To receive the approved loan, they are told to pay money up-front for fees or services. Instead they lose their money – and in some cases, their homes.

F. Variable rate loan disguised as a Fixed Rate Loan

1. Lender may advertise the loan as a low interest rate loan. They may fail to highlight that the interest rate is linked to the level of short term interest rates. When the latter rises, the interest rate on the loan will rise.

G. Home Mortgage Fraud	
Equity stripping (foreclosure rescue)	Predatory investors or small companies target low-income homeowners facing foreclosure and trick them into signing away their EQUITY and/or property deed. **Example**: If you are behind on your mortgage payments, a predatory lender may offer to help find new financing and ask you to deed your property over to the lender as a temporary measure to prevent foreclosure. But then the promised loan never comes, and the lender who made you the offer owns your home.
Phony lender	You receive a notice that the lender who collects your mortgage payment has sold or transferred your service to another lender. But the notice is a fake, and you start sending your mortgage payments to a phony lender! Remember: under federal law, a loan servicer must notify you at least 15 days before any such transfer. Their “goodbye letter” must include all of the contact information and start date for the new servicer. Contact your original lender to confirm that the transfer of service is legitimate. Other variations on this scam include being charged phony taxes or fees.

5. Predatory Lending Exercise: Is this a good deal?

Dear Homeowner:

Do you want extra cash? AAA Lender can help you get the money you have been hoping for. Our free services have already helped thousands of homeowners get low interest loans to consolidate bills, avoid foreclosure on their home and get out of debt.

We are a top-rated professional referral agency and our mission is to provide homeowners like you with carefully selected lenders. We use the best network of affiliated mortgage banking companies in the country! We have hundreds of lenders across the United States ready to meet your needs.

We can provide you with lenders who will loan you up to 125% of your home's value or $100,000, even if you have no equity in your home or have a bad credit history!

Best of all, our lenders offer the lowest interest rates available. They can set you up with an incredibly low monthly payment. There are no upfront fees and you will have the opportunity to refinance at a better rate in the future! You have absolutely nothing to lose!

the cash you receive from the loan for:

- Home improvements
- Credit card debt
- College tuition
- Dream vacation
- A new car
- Business start-up
- Or for whatever else you need!

Your loan can often be approved within 24 hours. You'll have the cash in your hands in 1 – 2 weeks. You owe it to yourself to request a free loan evaluation. Call now and find out how easy it is. Act now! This is a limited time offer.

Sincerely,

AAA Lender

5a. **Predatory Lending Exercise Questions**

1. Which of the Predatory Lending warning signs do you see here? ______________

2. Is this deal "too good to be true"? _____________________

3. How important is your credit history for this offer? ______________________

4. What should you do with this offer? _______________________

II. Loan Application Process

A. What Are My First Steps?

When applying for a loan, do your research. There are questions you should ask your potential lender, like:

Questions	Lender One	Lender Two	Lender Three
What would be my interest rate?	%	%	%
What would be my loan term options? **How long will I have to Repay?**			
For how much money would I qualify?	$	$	$
Would you charge any other fees in connection with my loan?	$	$	$

- As you research your options, remember to ensure that the interest rate, fees and monthly payments will be for the entire term of the loan.

Some of the questions may not be answerable without a **prequalification** or **preapproval** from the lender.

Prequalification	Pre-Approval
a no obligation, informal conversation, about a specific purchase price and loan amount.	a formal commitment from a lender (conditional approval) for a specific purchase price and loan amount.
a matter of opinion based on your answers to questions about your income, assets, liabilities, and credit history.	a matter of fact based on verified documentation such as paycheck stubs, asset statements and a credit report.

It is a good idea for you to know your credit score and have your proof of income on hand so that the lender can **prequalify** you without actually running a credit check.

Looking at these charts, you can see that the cost of a loan will depend on two things: 1. how long you take to pay it back (the term) and 2. your interest rate.

i. With a longer term loan, the monthly payments are lower, but the total cost is higher because of interest.

ii. By repaying in 49 months vs. 25 months, this borrower would end up paying over $1,100 more in interest!

iii. By getting a 5% interest rate vs. 15%, this borrower would save over $3,000 interest over five years!

Term Comparison

Based on 10% Annual Percentage Rate (APR)

Loan amount	$10,000	$10,000
Term	25 months	49 months
Monthly payment	$450	$250
Total cost of loan	$11,106	$12,215
Total interest paid	$1,106	$2,215

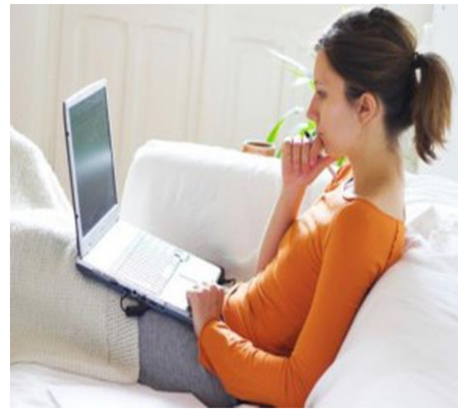
*Please note: the final month's loan payment may vary from the regular monthly payment.

Interest Rate Comparison

Loan amount	$10,000	$10,000
Term	5 years	5 years
Interest rate	5%	15%
Monthly payment	$188.77	$237.90
Total interest over 5 years	$1,236.92	$4,271.08

*Please note: the final month's loan payment may vary from the regular monthly payment.

a. Once you have chosen the lender it is now time to complete the application.
   i. Find a quiet location that will allow you to concentrate.
   ii. Read any and all instructions carefully.
   iii. Submit all of the required documents requested in the application.
   iv. Understand that you will be asked to provide very private information like:



      1. Your Name
      2. Your Social Security Number (to access your credit report)
      3. Your Date of Birth
      4. Your Legal Residency Status
      5. Your Current Address
      6. Your Proof of Income
   v. **BE HONEST** with your responses.


6. <u>What Do I Do If the Lender Says No</u>

A. There are several reasons why a lender may refuse a loan or charge a higher interest rate. Here are the more common reasons.

Irregular employment	Most institutions require that you have 2 years of continuous employment. Ask the lender about the employment requirements before completing the application.
Not enough income to repay the loan	Lenders consider your **<u>Debt to Income Ratio</u>**, the amount of debt you have as compared to your overall income. If your debt is high, they may not take the **<u>Risk</u>** to loan you money.
Poor credit history	Hopefully, before applying for a loan you would have fixed any adverse or bad credit accounts shown on your credit report. However, if not, then a lender will charge a high interest rate, or may not loan you money at all.
Lack of credit history	Lenders would like to see some type of credit history in your credit report. If you have **<u>NO CREDIT</u>** on file, this could prevent you from being approved.
Too short a time at residence	Lenders like to see stability in your home life as well as your professional life. If you move around often, this could be a reason that a lender denies a loan.
Insufficient down payment	Remember to read the loan requirements. If the lender requires a $5000 **<u>Down Payment</u>** and you only have $3000, then your down payment is not enough to qualify for the loan.

B. If the lenders says no, there are some steps you may take:

1. Pay off some of your existing debt.
2. Offer to make a larger down payment if possible.
3. No prior credit?
   i. Apply for a credit card with a low limit, make small purchases and pay on time.
   ii. Find out if factors such as payment of rent or utility bills could be considered.
4. Find out if all sources of income were considered in evaluating your application.
5. Find a reliable co-signer who is acceptable to the lender.
6. Find out if the credit bureau made any errors in the information they provided the lender.

By following these steps a lender may also offer a lower interest rate if your loan application was approved.

C. The lender will send you, in writing, a letter stating the reason for your credit denial, or informing you how you can request the reasons for denial.

If a lender rejects your application, don't take it personally; lenders can not grant or deny credit based on personality.

D. You have legal rights

1. The **Equal Credit Opportunity Act** promotes credit for all applicants who qualify.
   i. The U.S. government passed the Equal Credit Opportunity Act to promote the availability of credit to all applicants who qualify for credit without regard to race, color, religion, national origin, gender, marital status, or age.
2. If you believe that you have been denied credit due to any of these reasons, you may contact the **Consumer Financial Protection Bureau**. This is a government agency that investigates unfair credit practices **www.consumerfinance.gov**.

Glossary

Annual percentage rate (APR)

A measurement used to compare different loans, the APR takes into account a loan's interest rate, term, and fees to illustrate the total cost of credit expressed as a yearly rate. The lower the APR, the lower the total cost borrowing.

Capacity

A borrower's ability to make monthly loan payments. When reviewing loan applications, lenders look at a borrower's income and debts to determine his or her capacity to repay.

Capital

The assets a borrower owns, for example a car, or cash in a savings account minus your liabilities. If a borrower is unable to make his or her loan payments, a lender might use these assets to pay the debt.

Credit Insurance

This is an optional insurance coverage for which an additional fee is charged which may repay the balance of a loan if the borrower dies, becomes disabled or loses their job.

Debt-to-income ratio

A percentage that is calculated by dividing a loan applicant's total debt payments by his or her gross income.

Equity

The value of your investment (home) minus the total of your lien (mortgage/debt)

Foreclose

The legal process by which an owner's rights to a mortgaged property is terminated, usually because of failure to make loan payments as agreed. Foreclosure typically involves a forced sale of the property at public auction, with the money applied to the remaining debt.

Fine Print

The portion of a document, especially a contract, that contains qualifications or restrictions in small type or obscure language.

Fraud

Intentional use of deceit, a trick or some dishonest means to deprive another of his or her money, property or legal rights.

Installment loan

A loan that is repaid to the lender in equal amounts, over a fixed period of time. Sometimes may be referred to as Installment Credit.

Interest

The amount of money paid by a borrower to a lender in exchange for the use of the lender's money for a certain period of time. For example, you earn interest from a bank if you have a savings account and you pay interest to a lender if you have a loan.

Interest rate

The amount of interest paid per year divided by the principal amount (that is, the amount loaned, deposited, or invested). For example, if you paid $500 in interest per year for a loan of $10,000, the interest rate is 500 divided by 10,000, or five percent (5%).

Lender, creditor

A business that makes money available for others to borrow.

Loan

An agreement between a borrower and a lender, where the borrower agrees to repay money with interest over a period of time.

Net income

For a business, the amount of money earned after all expenses and taxes. For an individual, total take-home pay after all deductions (taxes, social security, etc.). Also called after tax income or net salary.

Past due

A bill that is not paid by its due date is said to be past due.

Predatory lending

When lenders conduct business in ways that are illegal or take unfair advantage of borrowers, using tactics that are fraudulent, deceptive, or discriminatory.

Principal

The total amount of money borrowed, loaned, invested, etc., not including interest or service charges.

Term

A period of time over which a loan is scheduled to be repaid. For example, a home mortgage may have a 30-year term, meaning it must be repaid within 30 years.

Loans and Predatory Lending
Post Course Survey

Please answer the following questions. When finished remove this paper and hand it to our instructor. Thank you for attending our class!

1. With a variable rate loan, your monthly payment?

- ☐ **A. Will remain the same throughout the life of the loan.**
- ☐ **B. May increase or decrease as the variable rate changes.**
- ☐ **C. None of the above**
- ☐ **D. I don't know**

2. Predatory lending practices are often designed:

- ☐ **A. to reduce interest charges**
- ☐ **B. to clearly charge high fees and high interest rates**
- ☐ **C. to trick borrowers into signing loan agreements with high interest rates, fees and unfair loan terms**
- ☐ **D. I don't know**