

BORROWING BASICS

What You Don't Know CAN HURT YOU!

If you're like most Americans, homeownership is a major part of the American Dream. [Aiello & Associates](#) can help you understand the steps you will need to take to reach that dream. Or, if you already own your own home, we can help you keep that dream alive.

Homeownership is a big responsibility, one that you will need to accept for many years. However, it is worth the effort! Whether you are thinking about buying a home or already own one, [Aiello & Associates](#) can help.

Getting the Facts

Almost everyone needs to borrow money to buy a home, repair it, or make major purchases. Understanding the facts about loans can be difficult, so as a public service, we provide *Borrowing Basics: What You Don't Know Can Hurt You*. We hope this information will help you make the right decisions.

When you hear "Need money? Bad credit? No credit?", followed by promises of easy money, watch out! A loan from such a source could end up being a costly mistake. If you agree to such a loan and then fall behind in your payments, you can ruin your credit. You can also lose your cash savings, car, home furnishings, or even your home!

Most lenders value their customers and want to give them the best possible loan options. If you need to borrow money and your credit is good, or can be improved with extra effort, you may qualify for a loan with reasonable interest rates. Just make sure that the loan is for only the amount you need, is from a source you can trust, and has a monthly loan payment you can afford.

What is predatory lending and how can it affect you?

Most lenders are trustworthy. but unfortunately, some lenders are not. They sometimes direct borrowers away from loans with more affordable interest rates. Instead, they offer loans that carry very high interest rates, questionable fees, and unnecessary charges. These practices are considered predatory lending.

A predatory lender may be a large company with a name you know. Or it may be a small company or a loan broker you've never heard of. But predatory lenders have many of the same traits. They:

- Offer loans based solely on the equity in a home, not on the borrower's ability to repay the loan;
- Charge unusually high interest rates for loans;
- Add excessive points to a loan without lowering the interest rate;
- Include excessive fees; and
- Tack on unnecessary costs, such as prepaid single-premium credit life insurance.

With or without these extra charges, you may find it difficult or even impossible to repay the loan. If you fall behind in your payments, more charges may be added. Or the lender may suggest that you refinance the loan to lower your monthly payment. But the unpaid payments may be added to the new loan amount, costing you even more money over time. Then the loan becomes even more difficult to repay. If you can't make the payments, you could lose the items you purchased or used to secure the loan.

Most often, the victims of predatory lenders are low and moderate income persons, minorities, and the elderly. But a predatory lender can mislead anyone, including you. You may want to consolidate credit card debt or buy your first home. If you already own your own home, you may want to make repairs to it. Your reasons for a loan may be good, but if you agree to an unfair loan, you could lose your home!

Here is an example of what can happen if you're not careful:

The Smiths had always dreamed of buying their own home. They were in their early 30's and had a household income of \$48,000 a year. They had experienced some credit problems in the past but had paid their bills on time for two years. Still, they were afraid that their previous credit problems would make it impossible to qualify for a mortgage at a bank or credit union. They were happy to get a letter from ABC Quick Credit that offered "easy" mortgages for everybody.

After talking to the folks at ABC, the Smiths felt confident that they were getting a great deal. They didn't bother to check with other lenders to see if they could get a more favorable interest rate. Instead they went with ABC. The friendly loan officer told them he had helped many others in their situation. Getting the mortgage WAS easy; they received a \$90,000 adjustable-rate mortgage, but at an interest rate of 15 percent with 7 points. And, as a condition of the ABC loan, they also had to purchase credit life insurance for \$500.

If they had shopped around, the Smiths would have realized that they would have qualified for a better loan at a fixed-rate mortgage at 8percent with 2 points and no credit life insurance. The ABC loan officer had said to trust him, and, unfortunately, that's just what the Smiths did.

At the end of the first year, the mortgage interest rate went up 2 percentage points to 17 percent, and their mortgage payment increased by \$145 a month! The Smiths quickly fell behind in their payments. They tried to get help, but it was too late. They lost their home.

A good, honest, lender will provide a borrower with an initial "Good Faith Estimate" (*upfront*) showing the costs and fees involved with the loan. Aiello & Associates is dedicated to providing honest and caring service, and competitive interest rates to all of our clients, by guiding them and working with them in choosing a loan that best suits their needs. Our reputation is built on satisfied and repeat clients.

How Can I Get The Best Loan?

Borrow only the amount you need and can afford to repay. You may be encouraged to borrow more than you need. So before deciding on a loan, be clear about how you will use the money and how you plan to pay it back. If you are already in debt and having problems making your payments, you probably shouldn't borrow more money. Instead, try to negotiate a payment plan with your current lenders.

Understand exactly how much the entire loan will cost. Review the complete payment schedule. Be sure to find out how much you will have paid in total when the final payment is made. Above all, beware of loans with one large "balloon" payment at the end. If you have difficulty making the final payment when it is due, you may have to refinance the loan to make the balloon payment. If your original loan does not guarantee a new loan with reasonable rates, the refinanced loan can cost you even more money because of additional points and fees.

Make sure that the loan fees are reasonable. In most cases, loan fees should not exceed 5 percent of the loan amount unless you are paying more for a lower interest rate. For example, if the loan amount is \$70,000, the loan fees should not exceed \$3,500 ($\$70,000 \times 0.05 = \$3,500$). However, there are some situations that may cause the loan fees to be higher. If you're not sure, ask a trusted advisor.

Read every word in a loan document, and check everything for accuracy. Don't accept loan terms just because the lender says they are "standard." Make sure you understand the reason for and effect of every loan term *before* you sign.

Do not be pressured into signing for a loan you can't afford. But if you do get pressured into signing for a loan you can't afford, act fast. You have a legal right to cancel, or "rescind," a loan contract when your home is used as security for a home-equity loan. But you must generally cancel the loan *in writing* within three business days of signing the loan documents.

What can you do to avoid a predatory lender?

Watch out for loan offers from someone who calls you on the telephone or comes to your door without an invitation. Throw away mail from companies offering to arrange a loan for you. Advertisements promising easy money should be viewed with caution. Remember, if an offer sounds too good to be true, it probably is.

Be wary of high-pressure sales pitches, such as claims that an offer is good only for a limited time. If the offer is good and legitimate today, it should still be good tomorrow. Take time to check it out.

If you're thinking about consolidating your debts into a home-equity loan, talk to a local nonprofit housing or consumer credit-counseling agency first. These agencies have your best interests in mind. They may be able to help you work out credit arrangements to avoid debt consolidation altogether. If debt consolidation is the most appropriate choice, they can help you select the best available options. Without their assistance, you may choose a bad loan and end up losing your home. Make sure you find out about the nonprofit agency's reputation *before* you work with it. Check with your local Better Business Bureau and state consumer protection agencies first. Also check the Web site www.ftc.gov for useful information.

Avoid loans that include extras you don't need. Loans should not include unnecessary costs like prepaid single-premium credit life insurance. Predatory lenders may require that you purchase a credit life insurance policy as a condition of getting a loan. This is not necessary. These extras will be added to the total cost of your loan and make your payments higher.

Never sign an agreement that you don't completely understand. And don't take a lender's word that an agreement is "standard." If the agreement seems unreasonable, or uses terms unfamiliar to you, ask for a complete copy of the loan agreement. Get a second opinion from someone you trust *before* you sign the loan agreement. Bring it to your advisor or local nonprofit housing or consumer credit counselor to review it.

Fill in all blank spaces. If an answer is not required, write "N/A" (Not Applicable) in the blank. Do not sign a document until you have completed every space. Someone could fill in the blank later and make you responsible for something without your knowledge or agreement.

Are all loans or credit cards with high interest rates predatory?

No, not necessarily. It is fairly common for bank, department store, and gasoline credit cards to have high interest rates. These cards usually have an interest-free grace period, so you will not pay any interest if you pay your bill in full every month. And interest rates for a mortgage, home equity, auto, or personal loan are usually considerably lower. The interest rate for your loan may vary based on the lending institution, type of loan, and your personal credit history. Plan to contact at least three lending institutions to compare their interest rates and loan options. You may also want to check the real estate or business section of your local newspaper or use popular search engines on the World Wide Web-to check current interest rates.

A Real Estate and Mortgage Vocabulary is provided for your reference.

Source: Fannie Mae Foundation