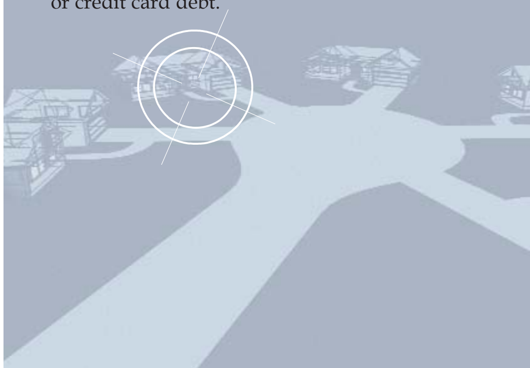
**If you are confronted with financial problems, talk to your lender and credit advisor right away!
They may be able to help you resolve your financial difficulties.**

... Potential Targets of Predatory Lending

- *Anyone can be a target*, but the most commonly targeted groups are minorities, seniors, and single women.
- Borrowers who have or *think* they have poor credit or who live in a location without many lending options can be led to believe that they cannot get a better deal than what is offered by a predatory lender.
- People in need of cash and who have home equity are targeted for "cash out" home equity loans to pay for medical expenses, automobile payments or credit card debt.



For more information regarding predatory lending, visit the Federal Home Loan Bank of Chicago's website at fhlbc.com.

Federal Home Loan Bank of Chicago
200 E. Randolph Drive
Chicago, IL 60601
www.fhlbc.com

Predatory Lending

Prepare Yourself. Protect Your Future.

Predatory lending is abusive and/or illegal lending practices by lenders, mortgage brokers, home improvement contractors, realtors, or appraisers that take advantage of unsuspecting borrowers. Predatory lenders offer unfair loans that exploit a borrower's lack of knowledge or they handle borrowers with deception, fraud, or high pressure sales approaches. This brochure provides an overview of common predatory practices so that borrowers can be both aware and prepared to avoid them.

Predatory Lending is...

... Packaging an Unfair Loan And Making the Hard Sell

• **High-Risk Loans**. Borrowers may be pressured to accept higher-risk terms such as adjustable rate mortgages, interest only loans, balloon payments, prepayment penalties, mandatory arbitration, or credit insurance.

• **Out-and-out Fraud and Abuse.** Lenders may falsify appraisals, income verification, or fill in blanks with terms not agreed upon by the borrower when originating a loan.

• **Excessive or "Packed" Fees.** Lenders may overcharge borrowers or charge for services that were not provided. As a rule, fees should not exceed 3% of the loan amount (4% for FHA or VA loans). Fees can also be "packed," or rolled into, the loan without the borrower's knowledge. Packed fees increase the total loan amount and leave the borrower not only paying the fee but also interest on the fee.

• **Bait and Switch.** The terms that were agreed upon before the closing are not the terms recorded on the mortgage. Borrowers are either pressured to sign the new deal at closing or may sign without double checking the paperwork.

• **Debt Consolidation.** When lenders pressure a refinance so that the homeowner can "cash out" the loan for medical, automobile, credit card, or unemployment expenses, it increases the debt burden. Typically, borrowers refinance their loans to reduce monthly payments, but it is not unusual for a debt consolidation refinance to increase monthly payments.

• **Loan Flipping.** Loans are refinanced repeatedly after only a short period of time, with each new refinance accruing fees and sometimes prepayment penalties. Refinances are often presented as special options that can relieve the borrower with a lower interest rate and payments, but in reality, it increases total debt because refinancing and origination fees are added to the loan.

• **Home Improvement Scam.** Unsolicited contractors who contact homeowners door-to-door, by mail or via telephone may offer unneeded or overpriced home repairs. The contractor often works with a lender to put together a predatory deal. Typically, the contractor requires an up-front payment for work and then fails to complete the repairs, leaving the borrower with a bad loan and a home remaining in need of repair.

The Borrower's Dozen

1 **Know your credit.** Request a copy of your credit report. Make sure the information is accurate. It only costs $10-$15 per report. Each agency has a 3-in-1 package that includes all three reports for between $30-$40. This is a small price to pay to be sure that your credit record is correct before submitting an application for a mortgage loan.

Equifax	Experian	TransUnion
1-800-685-1111	1-888-397-3742	1-800-916-8800
www.equifax.com	www.experian.com	www.transunion.com

2 **Seek advice.** Take a homeownership counseling course to learn more about credit, budgeting, and the mortgage process. Another good way to learn about financing a home is to discuss the experience with family and friends who have already purchased a home.

3 **Prepare a budget.** Understand your income and expenses and only borrow within your means. Do not take out a loan for more money than you need. If you get behind on payments, you could lose your home and all of the equity earned. As a rule, your mortgage payment should not exceed 30% of your gross income.

4 **Shop around for the best deal.** Visit several respectable lenders to compare interest rates, fees, and other loan terms. There is a good chance that you qualify for a conventional loan from a traditional lender. Be wary of lenders who claim that you cannot get a better deal from other lenders or lenders who contact you either by mail, telephone or door-to-door.

5 **Walk away from high pressure or confusing sales tactics.** If you are qualified for the loan now, you will still be qualified after you have time to review the documents and consult with an experienced mortgage advisor.

6 **Consult with an attorney or mortgage advisor about the terms of the loan.** Despite what your broker, real estate agent or home improvement contractor might say, they are not obligated to work for your best interests. It is best to get an independent third party to review the loan.

7 **Do not falsify information.** Deception on a mortgage application about income, debt, employment history, or the value of the home is fraud and is subject to criminal penalties.

8 **Ask in advance for an "attorney's package" of the closing documents.** These documents should be given to you 24 hours before the loan closing. Postpone the closing if they cannot get you the required documents. You should read all of the mortgage documentation before signing.

9 **Ask questions.** Ask the lender to show you where the terms are located. Do not sign documents until your questions are answered to your satisfaction and you fully understand the terms of the loan.

10 **Do not sign any documents with blanks or information that is different from what was originally negotiated.** Cross out blanks and ask for explanations about terms that have been changed. If the explanations provided are confusing, incomplete, or not to your satisfaction, do not sign the document.

11 **Understand all of the terms of the loan.** It is not enough to know the monthly payment and interest rate. You should know the annual percentage rate (APR), total amount of the loan, fees, points, and term length. Also be sure to ask about credit insurance, balloon payments, mandatory arbitration clauses, and prepayment penalties.

12 **Do not leave the closing until you are given copies of all of the documents that you signed.**