



STATE OF NEW YORK
OFFICE OF THE ATTORNEY GENERAL
THE CAPITOL
ALBANY, NY 12224

Dear New Yorker:

Predatory lending is a term commonly used to describe certain unfair and deceptive practices engaged in by unscrupulous merchants in the mortgage lending and consumer finance industries.

These merchants frequently target low income, minority and elderly consumers, who they believe have poor credit or little access to traditional lines of credit, and pressure them into accepting high cost loans, usually secured by a mortgage on the consumer's home, which provide little or no financial benefit to the consumer.

Consumers victimized by these practices may be entitled to relief under State and Federal law. My office investigates allegations of predatory lending practices and, if appropriate, will commence litigation to enforce compliance with the law.

In addition, my office has developed the following tips to help consumers avoid being victimized by predatory lending practices. If you believe you've already been defrauded by an unscrupulous lender, please contact my office at (800) 771-7755.

Sincerely,

ERIC T. SCHNEIDERMAN

CONSUMER TIPS

- **Be wary of loans offered through door-to-door sales** or telemarketing solicitations;
- **Be wary of offers made by construction companies** to procure access to high cost loans in conjunction with construction services;
- **Be wary of lenders or brokers who guarantee loan approval** regardless of your credit history or rating;
- **Shop around!** Interest rates and fees vary widely. Don't assume you will not qualify for a loan from a traditional lender. Those loans are less expensive than "subprime" loans.
- **Be suspicious** of anyone who pressures you to act before you are ready.
- **Read the entire loan application** carefully before signing. Make sure there are no blank spaces.
- **Make sure that you have received, read and understood all required disclosure documents** before you close. At closing, make sure the loan terms have not changed from what you were told before and that there are not additional fees you did not know about.
- **Consider consulting an attorney before signing anything.**
- **Ask about fees and "points" before applying for a loan.** The interest rate is not the only important term of a loan!
- If you are considering a loan with a variable interest rate, **make sure you understand what conditions** will affect a change in your rate, and the amount by which your rate may fluctuate.
- **Watch out for "hidden" terms,** such as prepayment penalties and balloon payments.
- **Make sure you can really afford the monthly payments.** As a general rule, responsible lenders look for mortgage payments to total no more than 29% of your total gross income.
- **Make sure the lender and broker you are dealing with are licensed** by the State Banking Department. You may contact the Banking Department at (800) 522-3330.
- **Contact a non-profit credit counseling agency** for assistance in determining whether you can afford your loan.

Common predatory lending practices:

- **Equity Stripping:** The lender makes a loan based upon the equity in the consumer's home, irrespective of whether the consumer has the ability to make payments. If the consumer cannot make payments, he/she can lose their home through a foreclosure proceeding.
- **Loan Flipping:** A lender enables the consumer to avoid the immediate ramifications of the consumer's inability to make payments on a loan by refinancing the loan with a new long term high cost loan. Each time the lender "flips" the existing loan, the homeowner must pay points and assorted fees.
- **Packing:** The consumer receives a loan that contains charges for services which the consumer does not request or need. "Packing" most often involves the forced purchase of credit insurance.
- **Hiding the Balloon:** The consumer believes they have applied for a low rate loan requiring low monthly payments only to learn at closing that it is a short term balloon loan which the consumer will have to refinance within a few years.
- **Discrimination:** The lender charges a consumer who is a member of a protected group more than they do a similarly situated consumer, who is not a member of a protected group.

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CONSUMER TIPS



PREDATORY LENDING

HOW TO PROTECT YOURSELF AND YOUR FINANCES



Eric T. Schneiderman
Attorney General