Predatory Lending Fact Sheet

The State of Alabama is working hard to protect borrowers from illegal and improper lending practices while still making sure that people get the credit they need. Prospective home buyers and other borrowers need to do their part by being careful about the lenders they select. Educating yourself about the techniques that dishonest lenders use will help you avoid becoming a victim of predatory lending.

The term "predatory lending" is used to describe a variety of deceitful, fraudulent or unfair credit practices, including:

- Steering borrowers towards interest rates that far exceed the lender's risks.
- Charging excessively high fees and commissions.
- Persuading a borrower to repeatedly refinance a loan in order to charge high points and fees each time the loan is refinanced ("loan flipping").
- Misrepresenting the loan's terms and conditions.
- Requiring high-cost credit insurance ("packing").

Unscrupulous lenders who use these tactics often target vulnerable populations such as low-income borrowers and seniors.

Protect Yourself from Predatory Lending Practices

Shop Around

- Compare the interest rates and the total costs of loans offered by several banks and credit unions in your area.
- Ask lenders for names of other customers you can contact to see if they are satisfied with their experience.
- Check for Administrative Actions against lenders you are considering by visiting our Web site at www.banking.alabama.gov or by contacting your local Better Business Bureau for any complaints.
- Don't take the first loan you are offered.

Use Caution

- Be wary of lenders who contact you first, through mail, e-mail, door-to-door sales or telemarketing solicitations.
- Be suspicious of lenders or brokers who guarantee loan approval regardless of your credit history.

- Beware of offers that are "only good for a short time."
- Steer clear of lenders who resort to high-pressure sales tactics.
- Be wary of promises to refinance the loan to a better rate in the future.
- Watch out for "hidden" terms, such as penalties for early pay-off of the loan, which are prohibited in Alabama.
- Avoid "balloon" payments—some loans keep monthly payments down by requiring a big payment at the end of the loan term.
- Make sure the monthly payments are well within your monthly budget.
- Verify the lender or individual Mortgage Loan Originator is licensed with the Alabama State Banking Department. If you borrow money from an unlicensed lender, please be aware that the Department may have limited ability to assist you with problems that arise regarding your loan transaction.

Ask Questions

- Ask your lender exactly what is being offered—you have a legal right to know the total cost of the loan, the annual percentage rate, the monthly payments and how long you have to pay back the loan.
- Have all fees and points explained to you before applying for a loan.
- Always ask questions until you understand everything.

Before You Sign on the Dotted Line

- Make sure that you have received, read and understand all required disclosure documents.
- Check to see if the loan terms quoted to you match your loan documents.
- Before you sign the loan papers, have a lawyer, family member or friend go over them with you.
- Never sign a document with blank spaces; all spaces should be filled in before you sign.
- **The bottom line: *When in doubt, don't sign!***

FINDING A LENDER LICENSED IN ALABAMA

The Department cautions against using the services of any payday or consumer installment lender not licensed by the Alabama State Banking Department. To find out which entities are licensed to make consumer loans in Alabama, go to the Department's website at http://banking.alabama.gov/licensee_search.aspx . To verify the license for an individual Mortgage Loan Originator ("MLO") go to the NMLS Consumer Access website, which may be accessed here: https://www.nmlsconsumeraccess.org/ Or you may call (334) 242-3452 or email the Department at Consumer.Lending@banking.alabama.gov and the Department will verify whether the lender in question is licensed.