



1 Hour Predatory Lending  
VREB Approval #: 58073

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## Instructions for the 1 Hour Predatory Lending Correspondence Course

You have chosen to take the 1 hour Predatory Lending course by correspondence. You may either read it online or print it. After you complete the course, take the quiz. A blank answer sheet is provided for you to record your answers. The Virginia Real Estate Board requires a passing grade of 75% or higher.

Complete the Certification Sheet. **Have the Student Declaration notarized.** The Virginia Real Estate Board has given you the option of either sending the notarized affidavit to us or keeping it with your records.

Mail, fax, or scan and email the completed answer sheet, certification sheet and Student Declaration to us. Our mailing address is Box 494, Oakton, Virginia 22124. Our fax number is 703-758-0044. Our email address is [info@PotomacRESchool.com](mailto:info@PotomacRESchool.com).

Your information will be held in the strictest of confidence.

You will not be charged unless you pass the exam. If you do not pass, you will be notified immediately.

Once we have received the required paperwork from you and you have been charged, we will report your hours to DPOR and email your certificate to you. The Real Estate Board requires that we report your hours to DPOR within 5 days of receipt of your paperwork. If you need reporting in less than 5 days, please let us know.

If you have any questions, please call or email us. Our phone number is 703-758-0034. For questions of a general nature, you can call or email us at [info@PotomacRESchool.com](mailto:info@PotomacRESchool.com). If you have questions about the content of the course, you can call or email me at [patti@PotomacRESchool.com](mailto:patti@PotomacRESchool.com).

Thank you.

*Patti Chapell*

Patti Chapell  
Director

*Linking Learning To Success®*

# Predatory Lending

## 1 – Responsible Lending

- According to NAR, in testimony before the U.S. Senate Committee on Banking, Housing and Urban Affairs, abusive and predatory lending practices are putting our nation's communities at risk. These practices can cause more families to lose their homes and savings through higher foreclosure rates.
  - All Realtors should seek to prevent abusive lending because abusive lending erodes confidence in the Nation's housing system
  - Not all sub-prime lending is predatory or abusive, and NAR supports federal legislation and regulation that prevents predatory lending while maintaining a role for responsible sub-prime lending.
- What are responsible lending principles?
  - NAR supports the general principle that all mortgage originators should act in "good faith and with fair dealings" in a transaction and treat all parties honestly.
  - Affordability
    - NAR supports strong underwriting standards that require all mortgage originators to verify the borrower's ability to repay the loan based on all its terms, including taxes and insurance, without having to refinance or sell the home.
    - Underwriting Sub-prime Loans with "Teaser Rates"
      - Some sub-prime loans are structured with a significant jump in monthly payments often resulting in "payment shock" for the borrower. While these mortgages may be a reasonable choice for sub-prime borrowers who can afford them, a majority of sub-prime borrowers do not understand the unique terms and conditions of these risky mortgage products that can result in a significant "payment shock." Therefore, lenders (including mortgage brokers) should exercise more caution when underwriting such loans to sub-prime borrowers to make sure the borrower is able to afford the mortgage. Examples of these risky mortgage products include loans with a short-term interest "teaser" rate for the first two or three years (known as 2/28s and 3/27s), loans with an initial interest-only period and mortgages that negatively amortize.
    - Reasonable debt-to-income ratio
      - NAR supports requiring lenders to make sub-prime loans that have a reasonable debt-to-income ratio. Borrowers should have enough residual income after making their monthly mortgage payment, including taxes and insurance, to meet their needs for food, utilities, clothing, transportation, work-related expenses and other essentials. Requiring underwriting at a fully amortizing, fully indexed rate is meaningless if the lender uses such high debt-to-income ratios that the family doesn't have enough income remaining to pay for other necessities.
    - Escrow/Reserve for payment of taxes and insurance
      - Lenders that make sub-prime mortgage loans should generally require that the monthly payment include an amount to be held by the mortgage servicer in an escrow/reserve/impound

account for the payment of the borrower's periodic payments, such as taxes and insurance. Similar to the exception for prime loans in some jurisdictions, borrowers that make at least a 20 percent down payment should have the option to budget for these payments independently.

- Limit Stated Income/Stated Assets Underwriting
  - Because mortgages underwritten based on "stated income" and/or "stated assets" (also known as "no income verification" or "no doc" loans) typically have higher rates, lenders making sub-prime loans should, as a general rule, underwrite loans based on verified income and assets. The main exception should be for borrowers whose incomes derive from hard-to-verify sources (such as self-employed borrowers).
- Flexibility for Life Circumstances
  - NAR believes that a standard for determining a borrower's ability to repay must be flexible to accommodate borrowers with unique circumstances, such as
    - Borrowers who have demonstrated the ability to make monthly payments over a long term, that are higher than underwriting standards would otherwise allow. Lenders should consider, for example, the borrower's history of making rent and student loan payments.
    - Borrowers with high assets but low income who, for cash management or other financial planning reasons, elect a mortgage with a monthly payment that their current income is not sufficient to cover.
    - Borrowers who anticipate a jump in income or assets due to life events such as graduation, completion of professional training, completion of payment obligations for student or car loans, another member of the household entering the workforce when young children start school or an inheritance.
- Anti-Mortgage Flipping Policy
  - NAR supports an anti-mortgage flipping rule requiring mortgage originators making or arranging for a loan that refinances an existing residential mortgage, to verify that the new loan provides a significant benefit to the borrower. The lender should consider the circumstances of the borrower and all terms of the new loan including taxes and insurance, fees and other costs of refinance, prepayment penalties and the new interest rate compared to that of the refinanced loan.
- Bar Prepayment Penalties
  - NAR opposes prepayment penalties for all mortgages. Prepayment penalties often work to trap borrowers in loans they cannot afford by making it too expensive to refinance. If complete prohibition of prepayment penalties is not feasible, NAR supports permitting prepayment penalties for the shortest time and the lowest amount possible. For example, a borrower in a 2/28 mortgage should be able to refinance by the end of the initial two-year "teaser" rate period without having to pay a prepayment penalty.
- Improvements for Assessing Creditworthiness
  - Borrowers with little or no credit history, as traditionally measured, usually have lower credit scores and must pay more every month for their mortgage than those with higher scores. NAR supports ongoing efforts to take into account consumer payment history not typically considered, such as rent, utility, telephone and other regular payments and urges HUD, the regulators, the GSEs (government-sponsored enterprises), and lenders to work to strengthen these

efforts. Use of alternative credit approaches will be especially beneficial for low- and moderate- income first-time homebuyers and borrowers with problematic loans that need to refinance their mortgage to avoid foreclosure.

- Another public policy issue associated with credit histories is the failure of furnishers to report good payment histories to the consumer reporting agencies. NAR has heard reports that many problematic sub-prime lenders purposefully withhold information on timely mortgage payments from the credit bureaus in order to prevent their customer from refinancing with another lender. The result is obvious – the borrowers with no positive payment histories for their sub-prime loan keep treading the waters of high-interest rates and expensive credit products. NAR supports requiring all institutional mortgage lenders, or the mortgage servicers acting on their behalf, to report payment history of all borrowers to at least the three national credit bureaus on a monthly basis.

## 2 – Responsible Lending

- Mortgage Choice for Borrowers
  - NAR supports requiring mortgage originators to offer borrowers one or more mortgages with interest rates and other fees that appropriately reflect the borrower’s credit risk. It remains the responsibility of borrowers to decide which is the best mortgage for their needs and circumstances, but they may only do so if they understand all the facts so they can make an informed decision. For originators who offer nontraditional mortgage products, the originator should
    - Offer all borrowers a choice of several significantly different mortgage options
    - Include at least one traditional loan product as one of the options for the borrower to consider, if the borrower qualifies for such a product offered by the originator and,
    - Before application acceptance, disclose information about the maximum potential payment over the life of the loan and the date the initial payment will increase to a fully amortizing, fully indexed payment amount.
  - For sub-prime borrowers, originators that offer FHA insured mortgages or VA home loan guaranty mortgages, should consider whether these types of mortgages should be offered as an appropriate option
  - If the originator does not offer mortgages with rates and fees appropriate for the borrower’s credit risk, the originator should inform the borrower a lower interest rate may be available from another originator or that the borrower may wish to seek housing counseling to allow the borrower an opportunity to shop elsewhere or receive counseling before proceeding.
  - For loans originated by a mortgage broker, the broker should offer mortgage options that are among the lowest-cost products appropriate for the borrower.
- Enforcement/Remedies
  - NAR supports enactment of strong remedies and penalties for abusive acts by mortgage originators. Among the options for consideration are
    - Criminal penalties similar to those under RESPA

- Civil penalties similar to those under RESPA
- Prohibition of mandatory arbitration clauses that bar victims' access to court
- Improved Consumer Mortgage Disclosures
  - Lenders have a responsibility to ensure that consumers understand the loans they receive, including their terms and all costs. Consistent with this principle, NAR recommends that HUD improve consumer disclosures under the Real Estate Settlement Procedures Act (RESPA). In particular, NAR believes that consumers should receive a Summary GFE (Good Faith Estimate), accompanied by a detailed GFE with explanations for each subcategory of fees to help consumers more fully understand the services they are receiving and the cost of each service. The revised GFE should closely parallel the HUD-1 settlement form so consumers can compare the GFE they receive when they apply for a loan to their closing documents at settlement.
- Strengthen Appraiser Independence
  - NAR believes that the independence of appraisers should be strengthened to ensure that appraisals are based on sound and fair appraisal principles and are accurate. There are reports that appraisers have been pressured to meet targeted values or risk losing business. Appraisal pressure undermines the integrity of the mortgage lending process if the result is a mortgage loan made based on an inaccurate property valuation. NAR recommends the following measures to strengthen the appraisal process:
    - Require lenders to inform each borrower of the method used to value the property and give the borrower the right to receive a copy of each appraisal
    - Establish enhanced penalties against those who improperly influence the appraisal process. Those with an interest in the outcome of an appraisal should only request the appraiser to
      - consider additional information about the property
      - provide further detail, substantiation or explanation for the appraisal and
      - correct errors
    - Provide federal assistance to states to strengthen regulatory and enforcement activities related to appraisals
    - Support enhanced education and qualifications for appraisers

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## 3 – Predatory Lending

- What are “prime” and “sub-prime” loans?
  - Until fairly recently, only a borrower with good credit could purchase a home. Those with poor credit were prevented from obtaining a loan. Loans to these creditworthy borrowers were called “prime” loans.
  - In recent years, some lenders decided to take on those with poor credit and offer them “sub-prime” loans. Borrowers obtaining sub-prime loans posed more of a risk to lenders; therefore, measures were taken to compensate the lenders of these loans for the added risk taken.
    - Usually the interest rate was higher than that for a prime loan.
    - Pre-payment penalties were stiffer.
    - In some, interest rates fluctuated more frequently.
- What is predatory lending?

- According to the Federal Trade Commission, a predatory loan is “an unsuitable loan with abusive terms.” NAR lists nine possible warning signs that may indicate an abusive loan:
  - Interest rates or fees that are much higher than the local market average
  - Balloon payments or payments that will greatly increase over the life of the loan
    - A balloon payment is a loan with periodic payments that are not enough to fully amortize the loan by the time the final payment is due; therefore, the final payment is larger than the others.
  - Pre-payment penalties or other barriers to refinancing
  - “No down payment” loans
  - Short “Introductory Rate” periods
  - Inflated property appraisal
  - Offers to lend more money than the borrower has the ability to repay
  - Fees for nonexistent products or services (“junk fees”)
  - Unethical loan document management
- Who is affected by predatory lending?
  - Usually, first-time homebuyers
  - Borrowers refinancing on the verge of losing their homes
  - Elderly
  - Minorities
  - Immigrants
  - Individuals with Low Credit Scores
  - Low income buyers
  - Predatory lenders target certain groups of people and use pressure tactics to force borrowing decisions that are not in the best interest of those people.
- What has precipitated predatory lending?
  - Appreciation in the price of homes has brought about these abusive loans in an effort to get people into houses they cannot afford.
- FBI tips to protect the consumer from becoming a victim of predatory lending
  - Before purchasing a home, the consumer should research information about prices of homes in the neighborhood.
  - The purchaser should shop for a lender and compare costs. He also needs to beware of lenders who tell him that they are his only chance of getting a loan or owning his own home.
  - The consumer should beware of “No Money Down” loans. This is a gimmick used to entice consumers to purchase property that they likely cannot afford or are not qualified to purchase. The consumer should be wary of the mortgage professional who falsely alters information to qualify him for the loan.
  - The consumer should not let anyone convince him to borrow more money than he can afford to repay.
  - The consumer should not let anyone persuade him into making a false statement such as overstating his income, the source of his down payment or the nature and length of his employment.
  - The consumer should never sign a blank document or a document containing blanks.
  - The consumer should read and carefully review all loan documents signed at closing or prior to closing for accuracy, completeness and omissions.
  - The consumer should be aware of cost or loan terms at closing that are not what he agreed to.
  - The consumer should not sign anything he does not understand.
  - If it sounds too good to be true, it probably is.
- How can we, as Realtors, help prevent predatory lending?
  - Recognize the warning signs.

- Educate our buyers about the mortgage lending process.
  - Ensure that our clients fully understand all aspects of the home buying process.
  - In some cases, refer our buyers to a financial advisor or counseling organization.
  - Share resources, such as the following, with our buyers:
    - Freddie Mac – “Don’t Borrow Trouble” campaign  
[http://www.dontborrowtrouble.com/en/anti\\_predatory.html](http://www.dontborrowtrouble.com/en/anti_predatory.html)
    - National Community Reinvestment Coalition – Anti-Predatory Lending Toolkit:  
<http://www.ncrc.org/policy/predatoryLending.php>
    - My Money – the Federal Government’s Website with links to many sites, including those on the following subjects: Budgeting and Taxes, Credit, Financial Planning and Homeownership.  
[www.MyMoney.gov](http://www.MyMoney.gov)
    - HUD’s Website – a wealth of information about home buying  
[www.hud.gov/buying/index.cfm](http://www.hud.gov/buying/index.cfm)
    - Freddie Mac’s Credit Smart Program – helps consumers understand, build, and maintain better credit  
[www.freddiemac.com/creditsmart](http://www.freddiemac.com/creditsmart)
    - FDIC’s Money Smart Program – “a training program to help adults outside the financial mainstream enhance their money skills and create positive banking relationships”  
[www.fdic.gov/consumers/moneysmart/overview.html](http://www.fdic.gov/consumers/moneysmart/overview.html)
    - Credit-Power – targets students and contains information about credit and homeownership  
[www.credit-power.org/default\\_eng.asp](http://www.credit-power.org/default_eng.asp)
    - A brochure, “Shopping for a Mortgage? Do Your Homework First,” produced jointly by NAR and the Center for Responsible Lending, identifies the warning signs of predatory loans. It outlines interest-only mortgages, negative amortization mortgages and option payment ARM mortgages. It also gives consumers tips on how to avoid these loans, and includes questions consumers should ask when shopping for a mortgage. Questions include
      - “How much can my monthly payments increase, and how soon can these increases happen?”
      - “Do I expect my income to increase, or do I expect to move before my payments go up?”
      - “Will I be able to afford the mortgage when the payments increase?”
      - “Am I paying down my loan balance each month, or is it staying the same or even increasing?”
      - “Will I have to pay a penalty if I refinance my mortgage or sell my house?”
      - “What is my goal in buying this property? Am I considering a riskier mortgage to buy a more expensive house than I can realistically afford?”
      - Anyone can get a copy of this brochure by going to  
<http://www.coloproperty.com/links/specialtymortgage.pdf>
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- The Homeownership Preservation Foundation is a non-profit group that offers free counseling for victims of predatory mortgage lending. It can be contacted at 1-888-995-HOPE.

- On July 11, 2007, the NAACP filed a Federal class action lawsuit against fourteen of the country's largest sub-prime mortgage lenders.
  - This lawsuit is designed to bring about equitable lending practices that do not adversely affect borrowers based on their race.
  - In a 2006 study, the Center for Responsible Lending found that when creditworthiness and credit risk were equal, African-Americans were still 31 percent to 34 percent more likely to receive higher rates and more expensive sub-prime loans than Caucasians.
  - The National Community Reinvestment Coalition revealed that lenders on average made high-cost sub-prime loans to higher-qualified African-Americans 54% of the time, compared to 23% of the time for Caucasians, even when the Caucasian applicants were less qualified.
  - These and other studies demonstrate that African-American homeowners are paying higher mortgage interest rates than their Caucasian counterparts.
- The Mortgage Bankers Association reported that at least 1.3 million home mortgage loans were either seriously delinquent or in foreclosure at the end of September, 2007.
- Deal brokered with mortgage industry in December of 2007
  - Froze certain sub-prime loans – those offered to borrowers with weak credit histories – for five years if the borrowers could not afford the higher monthly payments as those loans adjusted after being at lower introductory rates
- Project Lifeline
  - Announced February 12, 2008
  - Program was put together by six of the nation's largest financial institutions, which service almost 50 percent of the nation's mortgages.
  - Homeowners who are 90 or more days overdue on their monthly mortgage payments would be able to put the foreclosure process on hold for 30 days while they attempt to work with the lenders to make their mortgages more affordable.
  - The group, calling themselves the "Hope Now Alliance," are comprised of the following banks:
    - Bank of America Corporation
    - Citigroup, Inc.
    - Countrywide Financial Corporation
    - J.P. Morgan Chase and Company
    - Washington Mutual, Inc.
    - Wells Fargo & Company
- Predatory Lending Legislation
  - Congress and many individual states have passed and are continuing to pass legislation to fight predatory lending.

## Predatory Lending Final Quiz

1. Prevention of predatory lending is in the best interest of
  - a. Realtors
  - b. The public
  - c. Both a and b
  - d. Neither a nor b
2. Would a predatory loan be one which a consumer cannot afford?
  - a. Probably
  - b. No

3. The current housing crisis can be blamed on
  - a. Predatory lending
  - b. High rate of foreclosures
  - c. Shortage of building materials
  - d. a and b
4. All might be examples of predatory lending except
  - a. No documentation loan
  - b. 30 year fixed rate loan
  - c. No down payment loan
  - d. Loan with balloon payment coming after first two years
5. What is sub-prime lending?
  - a. Extending a loan whose rate is at least 5 points below prime.
  - b. Lending to high risk borrowers.
  - c. A loan that is available only to people who make over \$200,000 annually.
  - d. All of the above
6. Loan flipping is the practice of
  - a. Selling your home after the first month
  - b. Lowering the interest rate on a loan
  - c. Repeatedly refinancing a loan, often in the favor of the lender.
  - d. None of the above
7. What is a balloon payment loan?
  - a. A loan in which the required payments do not exceed the interest charged, often resulting in a large payment of the entire principal at the end of the loan term
  - b. The practice of adding extra charges, such as unemployment insurance, to the principal of a loan in order to increase the interest accrued
  - c. A special offer where the lending institution gives out promotional balloons to your children every time you refinance a loan
  - d. a and b
8. Which of these are warning signs of a predatory lending deal?
  - a. The lender tells you to misrepresent or falsify information on your loan application.
  - b. The lender pressures you into applying for more money than you need.
  - c. The lender fails to provide required loan disclosures or tells you not to read them.
  - d. All of the above
9. Why do sub-prime loans have higher interest rates than prime loans?
  - a. They are better loans.
  - b. Mortgage companies don't like them.
  - c. Both a and b
  - d. They are riskier loans; the higher interest rates help compensate the lender for the added risk.
10. Who would probably not be affected by predatory lending?
  - a. Middle-aged couples with a large down payment
  - b. Immigrants
  - c. First-time homebuyers
  - d. Minorities

11. NAR is in favor of
  - a. Barring pre-payment penalties
  - b. Eliminating the use of the HUD-1
  - c. Eliminating use of the Good Faith Estimate
  - d. None of the above
  
12. What is a pre-payment penalty?
  - a. Extra fees that may be due if you pay off a loan early
  - b. Extra fees charged to sub-prime loans before the loan is approved
  - c. Another term for the points on a mortgage
  - d. None of the above
  
13. Why should the payment history of rent, utility and telephone bills be considered as part of certain borrower's credit history?
  - a. Prompt payment of telephone bills is not essential
  - b. Some borrowers have lower than desirable credit scores just because they have little credit history
  - c. Both a and b
  - d. None of the above
  
14. What is the result of mortgage companies not reporting good payment histories to the consumer reporting agencies?
  - a. Those with sub-prime loans can never refinance with a more favorable loan product
  - b. Those with sub-prime loans cannot raise their credit scores
  - c. Both a and b
  
15. For originators who offer nontraditional mortgages, the originator should
  - a. Offer all borrowers a choice of several significantly different mortgage options.
  - b. Offer just one mortgage product
  - c. Always offer an FHA product
  - d. None of the above
  
16. If the loan originator does not offer mortgages with rates and fees appropriate for the borrower's credit risk, he should
  - a. Offer the borrower one of his best products
  - b. Tell the borrower that he will not qualify for any type of mortgage.
  - c. Inform the borrower that a lower interest rate may be available from another originator.
  - d. None of the above
  
17. NAR supports enactment of strong remedies and penalties for abusive acts by mortgage originators. Among options for consideration are
  - a. Civil penalties similar to those under RESPA
  - b. Criminal penalties similar to those under RESPA
  - c. Prohibition of mandatory arbitration clauses that bar victims' access to court
  - d. All of the above

Name \_\_\_\_\_ Date \_\_\_\_\_

## PREDATORY LENDING FINAL QUIZ

Please circle the correct answer for each question.

1. A B C D
2. A B C D
3. A B C D
4. A B C D
5. A B C D
6. A B C D
7. A B C D
8. A B C D
9. A B C D
10. A B C D
11. A B C D
12. A B C D
13. A B C D
14. A B C D
15. A B C D
16. A B C D
17. A B C D

# Potomac Real Estate School Certification Sheet for Correspondence Course

Please fax to (703) 758-0044, scan and email to [info@PotomacRESchool.com](mailto:info@PotomacRESchool.com), or mail to Potomac Real Estate School, Box 494, Oakton, Virginia 22124

Print Name \_\_\_\_\_ **Course: 1 Hour**

Billing Address \_\_\_\_\_ **Predatory Lending CE**  
 \_\_\_\_\_ (VREB Approval #58073)  
 \_\_\_\_\_

RE License # \_\_\_\_\_ (10 digits)

Expires \_\_\_\_\_

Phone # \_\_\_\_\_

Email \_\_\_\_\_

Company Affiliation \_\_\_\_\_

**Payment by Check**

\_\_\_\_\_ I enclose a check payable to Potomac Real Estate School LLC in the amount of \$15.00

**OR**

**Payment by Credit Card**

\_\_\_\_\_ Please charge \$15.00 to my \_\_\_Visa\_\_\_Master Card\_\_\_American Express\_\_\_Discover

**OR**

Card # \_\_\_\_\_ Expiration Date \_\_\_\_\_

Security Code \_\_\_\_\_ Signature \_\_\_\_\_

Did you find the material well organized?	Yes	No
Was the material well written?	Yes	No
Was the course material relevant?	Yes	No

Suggestions \_\_\_\_\_

**How did you find us?** Please circle

Internet    Postcard    Referred by \_\_\_\_\_    Email

Personal Note/Letter    Ad    VREB    NVAR    L&F

Other



**Student Declaration: I hereby certify that I completed this continuing education course (1 Hour Predatory Lending) on my own without assistance.**

**Signed** \_\_\_\_\_

**Date** \_\_\_\_\_

**Name (Print)** \_\_\_\_\_

**Notary Public Declaration: Taken, subscribed, and sworn before me this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_**  
**In the City/County/Town of \_\_\_\_\_**  
**In the State/Commonwealth of \_\_\_\_\_**  
**My commission expires \_\_\_\_/\_\_\_\_/\_\_\_\_\_**

**Notary Public** \_\_\_\_\_

**Notary Signature Required**

**But Seal NOT Required**