

Avoiding Bad Loans

Kentucky Department of Financial Institutions

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Training Objectives

- Understanding Reverse Mortgages
- Avoiding predatory loans / products
- Know what agencies to contact for help

What is DFI?

- Charters, licenses and registers various financial institutions, securities firms and professionals
- Conducts examinations and investigations
- Provides educational materials for consumers

Predatory Lending

- Some practices are illegal, while others are legal but not in the best interest of the borrowers
 - Illegal – Advance fee schemes; Internet payday or installment loans (not licensed)
 - Legal, but costly – Store-front payday lenders; Consumer Finance Companies; “Reverse Mortgage” products

What Is a Reverse Mortgage?

- Home Equity Conversion Mortgage or HECM
- Home equity is exchanged for cash
- Loan amount depends on appraised value, equity, interest rate and borrower's age
- Does not require repayment during the borrower's lifetime

Reverse Mortgage (continued)

- Loan balance increases – Interest and fees are added to the principal balance monthly
- Becomes due and payable when the last surviving borrower dies, home is sold, or borrower permanently moves out
- Is insured by the FHA
- Requires mandatory HUD-approved counseling

Who Qualifies for a Reverse Mortgage?

- Individuals age 62 or older
- Homeowner must reside in home offered as collateral; primary residence
- Homeowner must own home outright or have substantial equity in the home
- Participate in a consumer information session given by a HUD-approved counselor

Qualifications (continued)

- Not be delinquent on any federal debt
- Have financial resources to continue making timely payment of property taxes, insurances, and maintenance expenses
- Financial Requirements:
 - Timely payment of taxes and insurance will be verified
 - Income, assets, expenses, and credit history will be verified
 - Establish set aside accounts to pay taxes and insurance

Reverse Mortgage Costs

- Origination fee (based on appraised value, not the loan amount)
- Third party charges
- Mortgage insurance premium
- Interest
- Servicing Fees

What Triggers Repayment?

- Death: The borrower or last co-borrower dies
- Move out: The borrower(s) move out of the home permanently
- Extended absence: The borrower does not reside in the home for a period of 365 days + 1

Repayment Triggers (continued)

- Sale or gift of property: Transfer of title to third party; also cannot add owner or file bankruptcy
- Failure to fulfill obligations: If the borrower fails to pay taxes, insurance, or keep the home in good repair, the lender may foreclose

Trends/Risk to Consumers

- Using reverse mortgages to refinance existing traditional mortgages or consumer debt
- Removing younger spouses from the deed and not naming them as co-borrowers
- Borrowers not fully appreciating or understanding obligations
- Key elements omitted from counseling sessions
- Complicated products and/or aggressive sales tactics
- Underestimating long-term cost (looking only at short-term cost)
- Viewing products as a government entitlement program rather than a loan
- Not seriously evaluating alternatives

Potential for Fraud

- Misleading claims made by brokers
- Cross-selling (HERA of 2008)
- Manipulation of loan application and closing process to inflate appraisals and siphon off funds
- “Cash-out theft” by a family member or other person with power of attorney
- Inflating appraisals to allow borrowers to qualify

Reverse Mortgage Tips

- Do not decide about a reverse mortgage alone
- Beware of someone pushing a reverse mortgage who tells you what to do with the proceeds
- Understand the terms
- Know your alternatives
- Beware of “limited time only” offers
- Do not deal with an unlicensed lender
- Do not sign documents you don't understand or that have incorrect information
- Do not provide false information to qualify


Warnings

- Do not draw more money than you need
- Do not use reverse mortgage for investing; Significant cost and fees
- Should not remove younger spouse from deed and mortgage
- Homeowner remains responsible for taxes, insurance, and upkeep

More Info on Reverse Mortgages

- AARP Foundation
 - www.aarp.org/money/credit-loans-debt/
- U.S. Department of Housing and Urban Development (HUD)
 - www.hud.gov/offices/hsg/sfh/hecm/rmtopten.cfm
- Federal Trade Commission Consumer Response Center
 - www.ftc.gov/bcp/menus/consumer/credit.shtm

Financially Abusive Products or Practices

- Advance Fee Schemes
 - Payday Loans / Internet Pay Day Loans
 - Debt Buying by Debt Collection Company
 - Debt Settlement Companies
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Advance Fee Schemes

- Advance fee schemes are illegal
- Advertise online or use regional trade publications
- Company requests a payment up front for the “first payment” or “insurance”
- No loan is provided
- The up-front payment cannot be recovered

Internet Payday Lenders

- Internet payday loan companies are not licensed in Kentucky
- Kentucky law states that an unlicensed payday lender is not entitled to receive any form of payment
- DFI will issue a “cease and desist” on the borrower’s behalf

License Required (Check Cashers; i.e., Payday Loans)

- **KRS 286.9-020:**

“Except as provided by KRS 286.9-030, no person shall engage in the business of cashing checks or accepting deferred deposit transactions for a fee or other consideration without having first obtained a license . . .”

- **KRS 286.9-035(1):**

“Any deferred deposit transaction agreement made with a person who is not licensed under this subtitle shall be void, and the person shall not collect any principal, fee, interest, charges, or recompense whatsoever.”

Internet Consumer Loans

- Internet installment loan companies are not licensed in Kentucky
- Kentucky law states that an unlicensed lender has no right to collect any principal, charges or recompense whatsoever
- DFI will issue a “cease and desist” on the borrower’s behalf

Store Front Payday Lenders

- Sold as short term solution
- High Interest Rate - Triple Digit APR
- Kentucky requires a check to be presented at the business

Debt Settlement Companies

- Companies that advertise that “you can be debt free in 36 months” or “we can reduce your loan debt by up to 50%”
- Enrolling in debt settlement programs typically worsens financial situation

More Things to Watch Out For

- If it sounds too good to be true, it is
- Beware of “limited time only” offers
- Do not give out personal information over telephone or Internet
- Do not pay for credit counseling or credit repair
- Do not deal with an unlicensed lender
- Do not sign documents you don’t understand or that have incorrect information
- Do not provide false information to qualify
- Get all promises in writing

Consumers Can Call / Contact

- Call us to check out the background of your loan officer or to file a complaint:
- KY Department of Financial Institutions
 - [800-223-2579](tel:800-223-2579)
 - www.kfi.ky.gov
- Consumers should be advised to file complaints with the Consumer Financial Protection Bureau
 - [855-411-2372](tel:855-411-2372)
 - <http://www.consumerfinance.gov/contact-us/>

Other Contacts for Assistance

- Federal Trade Commission
 - 877-382-4357
 - www.ftc.gov
- OCC (Office of the Comptroller of the Currency)
 - Customer Service
 - 1301 McKinney Street, Suite 3400
 - Houston, TX 77010-9000
 - 800-382-4357