



Consumer Tips

From
Attorney General Roy Cooper



Home Equity Scams: Borrowers Beware

Your home is probably your most valuable possession. Unfortunately, if you agree to a loan that's based on the equity you have in your home, you may be putting your most important asset at risk.

Watch out for abusive lending practices like these that could cause you to lose your home:

- **Equity Stripping:** The lender makes a loan based upon the equity in the your home, whether or not you can make the payments. If you can't keep up with the payments, the lender will foreclose—taking your home and the equity you spent years building.
- **Loan Flipping:** A lender refinances your original loan with a new long-term, high-cost loan. Each time the lender “flips” the existing loan, you must pay points and assorted fees. With each refinancing, you increase your debt. If you aren't able to make your payments, you could lose your home.
- **Packing:** You receive a loan that contains charges for services you did not request or need. “Packing” most often involves the forced purchase of credit insurance. In North Carolina, lenders cannot require the purchase of most types of credit insurance. If you buy the insurance, you're paying extra for your loan.
- **Hidden Balloon Payments:** You've fallen behind in your mortgage payments and may face foreclosure. Another lender offers to refinance your mortgage and lower your monthly payments. But look at the loan terms carefully. The payments may be low because you'll owe a huge lump sum called a balloon payment at the end of the loan term. If you can't make the balloon payment, you could lose your home.
- **The Home Improvement Loan:** A contractor offers to perform work on your home and tells you he can even arrange financing. You agree to the project and sign some papers, only to realize later that you've agreed to a home equity loan with high interest rates, points and fees. The contractor, who may have been paid by the lender, never finishes work on your home or does a substandard job.
- **Mortgage Servicing Abuses:** After you get a mortgage, your lender begins to add charges that you don't understand – such as legal fees, inaccurate late fees, and extra insurance – to your loan, increasing your monthly payments or the amount you owe at the end of the loan term. The lender won't provide you with an accurate or complete account of these charges and it is almost impossible to determine how much you've paid or how much you owe.
- **Signing Over Your Deed:** If your lender has threatened to foreclose, another lender may contact you with an offer to help you find new financing. The new lender asks you to deed your property to him, claiming that it's a temporary measure to prevent foreclosure. The promised refinancing

that would let you save your home never comes through, and the lender now holds the deed to your home.

To protect yourself from home equity scams, do not:

- Agree to a home equity loan if you don't have enough income to make the monthly payments.
- Sign any document you haven't read or any document that has blank spaces to be filled in after you sign.
- Let anyone pressure you into signing any document.
- Agree to a loan that includes credit insurance or extra products you don't want.
- Let the promise of extra cash or lower monthly payments get in the way of your good judgment about whether the cost you will pay for the loan is really worth it.
- Deed your property to anyone. First consult an attorney, a knowledgeable family member, or someone else you trust.

To make sure you get a fair loan, do:

- Ask specifically if credit insurance is required as a condition of the loan. If it isn't, and a charge is included in your loan and you don't want the insurance, ask that the charge be removed. If you want the added security of credit insurance, shop around for the best rates.
- Keep careful records of what you've paid, including billing statements and canceled checks. Challenge any charge you think is inaccurate.
- Check contractors' references when it is time to have work done in your home. Get more than one estimate.
- Read all items you are asked to sign carefully. If you need an explanation of any terms or conditions, talk to someone you can trust, such as a knowledgeable family member or an attorney.
- Consider all the costs of financing before you agree to a loan.

For More Information:

See also tips on Predatory Lending, Mortgages and Finding a Lender.