FTC Consumer Alert

Federal Trade Commission ■ Bureau of Consumer Protection ■ Division of Consumer & Business Education

Avoiding Home Equity Scams

Washington, DC — You could lose your home and your money if you borrow from unscrupulous lenders who offer you a high-cost loan based on the equity you have in your home. Certain lenders target homeowners who are elderly or who have low incomes or credit problems — and then try to take advantage of them by using deceptive practices. The Federal Trade Commission, the nation's consumer protection agency, cautions all homeowners to be on the lookout for:

- **Loan Flipping:** The lender encourages you to repeatedly refinance the loan and often, to borrow more money. Each time you refinance, you pay additional fees and interest points. That only serves to increase your debt.
- **Insurance Packing:** The lender adds credit insurance, or other insurance products, to your loan, which you may not need.
- **Bait and Switch:** The lender offers one set of loan terms when you apply, then pressures you to accept higher charges when you sign to complete the transaction.
- **Equity Stripping:** The lender gives you a loan, based on the equity in your home, not on your ability to repay based on your income. If you can't make the payments, you could end up losing your home.
- **Non-traditional Products:** Many lenders offer loans in which the minimum payment does not cover the principal and interest due, causing your loan balance, and eventually, your monthly payments to increase. Also, many of these loans have variable interest rates, causing your monthly payment to increase further if the interest rate rises.
- **Deceptive Loan Servicing:** The lender doesn't provide you with accurate or complete account statements and payoff figures. That makes it almost impossible for you to determine how much you have paid or how much you owe. You may pay more than you owe.

Some of these practices violate federal credit laws dealing with disclosures about loan terms; discrimination based on age, gender, marital status, race, or national origin; and debt collection. You also may have additional rights under state law that would allow you to bring a law suit.

The FTC suggests if you're thinking about using your home as collateral for a loan, be careful. Unless you can make the loan payments out of current income, you could lose your home as well as the equity you've already built up. Some additional tips to remember:

- The lure of extra money or the chance to reduce monthly credit payments can be very costly in the long run. High interest rates and other credit costs could get you in over your head.
- Insurance products may not be a good deal from a lender. If you want the added security of insurance, shop around.

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- Ask for a written estimate of costs when you apply, and don't sign a loan agreement if the terms are not what you were given when you applied.
- Ask for an explanation of any dollar amount, term, or condition that you don't understand. Federal law is very clear about what credit and loan term information must be provided in writing when you apply for a loan and before you sign any agreement.

In addition, shop around for the best loan terms and interest rates. Contact lending institutions, such as banks and credit unions, and consult a legal or financial advisor, or someone you can trust before you make any loan decisions. Or contact your local Fair Housing Office, legal aid, or senior services organization for information and help.

The FTC works for the consumer to prevent fraudulent, deceptive, and unfair business practices in the marketplace and to provide information to help consumers spot, stop, and avoid them. To file a complaint or to get free information on consumer issues, visit ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. The FTC enters Internet, telemarketing, identity theft, and other fraud-related complaints into Consumer Sentinel, a secure, online database available to hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.