

FTC Consumer Alert

Federal Trade Commission ■ Bureau of Consumer Protection ■ Office of Consumer and 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 cautions all homeowners to be on the lookout for:

- **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.
- **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.
- **Credit Insurance Packing:** The lender adds credit insurance 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.
- **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.
- Credit insurance may not be a good deal from a lender. If you want the added security of credit insurance, shop around.
- 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.

For more information on loan and credit issues, contact the Consumer Response Center, Federal Trade Commission, Washington, DC 20580. Or visit the FTC at www.ftc.gov; click on Consumer Protection and Publications.