Mortgage Fraud

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:

Home Equity Scams

- Equity Stripping: The lender gives you a loan, based on the equity in your home, not on your ability to repay.
- Loan Flipping: The lender encourages you to repeatedly refinance the loan and often, to borrow more money, and racking up fees.
- 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.

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 may also have additional rights under state law that would allow you to bring a law suit. Deceptive Loan Servicing 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.

Choosing a Loan

- High interest rates and other credit costs could get you in over your head.
- 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.

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 addition tips to remember:

- The lure of extra money or the change to reduce monthly credit payments can be very costly in the long run
- Credit insurance may not be a good deal from a lender.
- 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.

Under the right to rescind, you have until midnight of the third business day to cancel the credit transaction. Day one begins after all three of the following occur:

3 Days to Cancel Home Equity, Generally

- Sign the credit contract;
- Receive a Truth in Lending disclosure form containing certain key information about the credit contract, including the annual percentage rate; finance charge; amount financed; and payment schedule; and
- Receive two copies of a Truth in Lending notice explaining your right to rescind.

For rescission purposes, business days include Saturdays but not Sundays or legal public holidays. For example, if the events listed above take place on a Friday, you have until midnight on the next Tuesday to rescind.

During this waiting period, activity related to the contract cannot take place. The creditor may not deliver the money for the loan. If you're dealing with a home improvement loan, the contractor may not deliver any materials or start work.

If you decide to rescind, you must notify the creditor in writing. You may now rescind by telephone or in a face-to-face conversation with the creditor. Your written notice must be mailed, filed for telegraphic transmission, or delivered if by other written means, before midnight of the third business day.

Exceptions are instances where a consumer is purchasing or building their primary residence, refinancing with the same company- no money out, or where a state agency is the creditor.

Home Equity Dos

- Ask specifically if credit insurance is required as a condition of the loan.
- Keep careful records of what you've paid.
- Check contractors' references for any construction. Get more than one estimate.
- Read all items carefully.

If credit insurance is not required, and a charge is included in your loan and you don't want the insurance, ask that the charge be removed from the loan documents. If you want the added security of credit insurance, shop around for the best rates.

Keep records: including billing statements and canceled checks. Challenge any charge you think is inaccurate.

Read all items carefully: If you need an explanation of any terms or conditions, talk to someone you can trust, such as a knowledgeable family member or attorney. Consider all the costs of financing before you agree to a loan.

Home Equity Don'ts

Make sure you have the income to support your monthly payments.

- Don't take out a loan if you can't afford it.
- Don't sign with blank spaces or without reading what it is you are signing.
- Don't let anyone pressure you.
- Don't sign up for extras you don't need.
- Don't let judgment be clouded by cash.
- Don't deed your property to anyone.

You want to make sure that the loan is worth the costs. There are calculators on the Internet on most major bank sites. These calculators can help you determine how long it will take you to make up for the costs with lower payments and whether in fact, lower payments will be an outcome.

First consult an attorney, a knowledgeable family member or someone else you trust.

Reverse Mortgages

"Reverse Mortgage": Consumer receives money from the lender and generally does not have to pay it back for as long as the customer lives in their home. Instead, the loan must be repaid upon death, sale, or when the consumer no londer lives there as a principal residence.

Whether seeking money to finance a home improvement, pay off a current mortgage, supplement their retirement income, or pay for healthcare expenses, many older Americans are turning to "reverse" mortgages. They allow older homeowners to convert party of the equity in their homes into cash without having to sell their homes or take on additional monthly bills.

In a "regular" mortgage, you make monthly payments to the lender. Reverse mortgages can help homeowners who are house-rich but cash-poor stay in their homes and still meet their financial obligations.

To qualify for most reverse mortgages, you must be at least 62 years of age and live in your home. The proceeds of a reverse mortgage (without other features, like an annuity) are generally tax-free, and many reverse mortgages have no income restrictions.

Is a Reverse Mortgage right for me?

- Origination fees and other closing costs, servicing fees.
- The amount generally grows over time.
- Uses up all or some of the equity in your home; fewer assets for you and your heirs.
- Responsible for property taxes, insurance, utilities, fuel, maintenance, and other expenses.
- Interest is not deductible on income tax returns until the loan is paid off.

Interest is charged on the outstanding balance and added to the amount you owe each month. That means your total debt increases over time as loan funds are advanced to you and interest accrues on the loan.

A “non-recourse” clause, found in most reverse mortgages, prevents either you or your estate from owing more than the value of your home when the loan is repaid.

Reverse Mortgage Tips

- **Be cautious!** If anyone tries to sell you something, like an annuity, and suggests that a reverse mortgage would be an easy way to pay for it.
- **Make sure you take time to understand.** If you don’t fully understand what they’re selling, or you’re not sure you need what they’re selling, be even more skeptical.
- T**otal cost = cost of what they’re selling + the cost of reverse mortgage.** If you think you need what they’re selling, shop around before you buy.
- **3 day cooling period.** Remember that you must cancel in writing. The lender must return any money you have paid so far for the financing.

National Reverse Mortgage Lenders Association (NRMLA)

www.Reversemortgage.org

Established in 1997, NRMLA, headquartered in Washington, DC, is the national voice for lenders and investors engaged in the reverse mortgage business. NRMLA fulfills several roles, which include educating consumers about the opportunity to utilize reverse mortgages, training lenders to be sensitive to the needs of older Americans, developing a Code of Conduct to make sure lenders participating in the program treat seniors respectfully, and promoting reverse mortgages in the media. This site is for consumers interested in learning more about reverse mortgages. The information provided on this site is provided by the National Reverse Mortgage Lenders Association (NRMLA).

Home Loan Law

The Home Ownership and Equity Protection Act of 1994 (HOEPA).

This law addresses certain deceptive and unfair practices in home equity lending. It amends the Truth in Lending Act (TILA) and establishes requirements for certain loans with high rates and/or high fees.

What loans are covered?

A loan is covered by the law if it meets the following tests:

- For a first-lien loan, that is, the original mortgage on the property, the annual percentage rate (APR) exceeds by more than eight percentage points the rates on Treasury securities of comparable maturity;
- For a second-lien loan, that is, a second mortgage, the APR exceeds by more than 10 percentage points the rates in Treasury securities of comparable maturity; or
- The total fees and points payable by the consumer at or before closing exceed the larger of $528 or 8 percent of the total loan amount. (The $528 figure is for 2006. This amount is adjusted annually by the Federal Reserve Board, based on changes in the Consumer Price Index.) Credit insurance premiums for insurance written in connection with the credit transaction are counted as fees.

HOEPA Prevents:

- **Balloon payments:** Where the regular payments do not fully pay off the principal balance and a lump sum payment of more than twice the amount of the regular payments is required- for loans with less than five-year terms. There is an exception for bridge loans of less than one year used by consumers to buy or build a home: In that situation, balloon payments are not prohibited.
- **Negative amortization:** Involves smaller monthly payments that do not fully pay off the loan and that cause an increase in your principal debt.
- **Default rates higher than pre-default rates.**
- **Most prepayment penalties:** Those which include refunds of unearned interest calculated by any method less favorable than the actuarial method. The exception is if: (a) the lender verifies that your total monthly debt (including the mortgage) is 50 percent or less of your monthly gross income, (b) you get the money to prepay the loan from a source other than

the lender or an affiliate lender, and (c) the lender exercises the penalty clause during the first five years following the execution of the mortgage.

- **Due-on-demand Clause.**

For more information on Mortgage Fraud visit:

National Reverse Mortgage Lenders Association (NRMLA)
www.reversemortgage.org

U.S. Departments of Housing and Urban Development(HUD)
www.HUD.gov

FBI Headquarters in Washington, D.C.
www.FBI.gov

Attorney General Fraud Hotline
866/966-7226