

Consumer Facts for Older Americans

Protect Your Investment Don't Let Predatory Lenders Take Your Home!

Senior citizens are an attractive target for unscrupulous mortgage lenders because they often have a lot of equity in their homes after years of diligently paying off their mortgages. Lenders encourage them to use that equity to finance home repairs, medical care and other needs, but they will not tell seniors about the high fees, hidden payments or other disadvantageous loan terms that could lead to the loss of their homes.

What Should You Look Out For?

There are several "warning signs" that a loan may be abusive or predatory. While not all loans containing one or more of the "signs" listed below are predatory, these features are often associated with such loans. Shop around and compare offers to get the best loan.

- **Beware of home improvement scams!** If you must borrow money to repair your home, do not let the home improvement company arrange a loan on your behalf. Home improvement contractors often get a commission for steering seniors to predatory mortgage lenders. Some of these contractors may then take all your money and not finish the repair or do an extremely poor job.
- **Avoid loans with high interest rates, fees or closing costs.** Lenders profit from these items, so it is worthwhile to shop around. If you are unsure if a closing fee or cost is legitimate or fairly priced, seek help before signing the loan.
- **Avoid loans with "balloon" payments.** A balloon payment is a large sum of money due at the end of the term of the loan. Homeowners who cannot meet the balloon payment will lose their home to foreclosure unless they refinance the loan, often at an excessive cost. Lenders use balloon payments to make a loan appear affordable by highlighting the low monthly payments instead of the entire cost of the loan.
- **Do not purchase credit insurance with your loan.** Lenders will try to sell you credit life insurance or credit accident and health insurance, as part of the loan. This insurance is extremely profitable for the lender, but provides you little or no benefit. Credit insurance premiums are expensive as they are financed over the life of the loan. You can obtain more reasonably priced insurance on the open market.
- **Use mortgage brokers wisely.** Ask your broker how he or she will be compensated. If you are not sure if the company you are using is a broker or a lender, ask. Many brokers are licensed by the state. Check your state regulatory authority for more information.
- **Think carefully before you refinance with the same lender or an affiliate of the lender.** Predatory lenders make money by charging you a new set of fees and costs every time you refinance your loan. Before you refinance, read *Consumer Facts for Older Americans* on "What You Should Know Before Refinancing," which contains twelve helpful hints.

Know Your Rights

Predatory lenders are aggressive and may try to pressure you into signing for a loan you do not want. If you do sign a loan agreement secured by the home you already own, whether it is a home equity loan, refinancing loan, or second mortgage, federal law gives you *three business days to change your mind* for any reason. You also have the right to:

1. Have all your questions answered about the loan.
2. Examine each and every document – do not be rushed into signing anything.
3. Say no to any loan you do not want (even if you are at closing).

Get Help!

Before you take out a loan, talk to your attorney, financial advisor or someone you trust if you do not understand the terms of the loan offered to you. You can also call your local non profit housing organization for assistance.

If you are a victim of a scam lender, find an attorney or advocate knowledgeable about lending laws. If you are low-income or otherwise qualify, you may be able to get free assistance at your local legal services office. Act quickly because you can lose rights by waiting. If you consult with an attorney it may be helpful to bring the following documents related to your mortgage: mortgage application; closing documents; letters you received from the bank; and copies of letters you mailed to the bank. Try to keep these documents in the same envelope you received them in and in the same order if possible.

For More Information

American Association of Retired Persons (AARP), Consumer Affairs Division, 601 E. Street, N.W., Washington, D.C. 20410, (800) 424-3410 or <http://www.aarp.org>.

Federal Trade Commission, Office of Consumer/Business Education, 7373 147th St. N.W. Washington, D.C. 20580. The FTC has several publications on home equity fraud on its website at www.ftc.gov/bcp/menu-lending.htm or call 1-877-FTC-HELP.

The Community Reinvestment Association of North Carolina, 114 W. Parrish St, 2nd Fl., P.O. Box 1929, Durham, N.C. 27702-1929, (919) 667-1557, www.cra-nc.org.

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