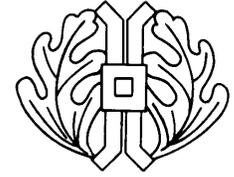


# PREVENTIVE LAW SERIES

## REAL ESTATE: HOME EQUITY SCAMS



Prepared by:  
Legal Assistance Department  
Naval Legal Service Office Southwest  
P.O. Box 357042  
Naval Air Station, North Island  
San Diego, CA 92135-7042  
(619) 545-6278



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If you own your own home, you likely receive lots of proposals to loan you money based on the equity you have in your home. Often companies target the elderly, persons with low income or those with poor credit with offers that sound great but in reality may cause you to lose your home. Be aware of these practices so that you can spot them before you put your home on the line.

### 1. EQUITY STRIPPING

You need money and don't have a big monthly income. However, you do have equity in your home. You could get a loan, but your monthly income won't be able to keep up with the monthly payments. A lender comes along and encourages you to "pad" or inflate your income, maybe "play with the numbers" in order to get your loan approved. Be careful!! The lender may be out to "steal" your equity. He doesn't care whether you keep up the payments or not because if you don't, he will foreclose your home and strip you of the equity you spent years to build. Don't get set up.

### 2. THE BALLOON PAYMENTS

You've fallen behind on your mortgage payments. You're getting letters threatening foreclosure. Another lender comes along and offers to "save" you by refinancing your loan AND lowering your monthly payments. Look carefully!!! The monthly payments may be lower because the lender is offering a loan in which you only pay the interest each month. Then, at the end of the loan term, the entire principal is due in one lump sum called a balloon payment. If you can't make that payment or refinance in a hurry, you could lose your home.

### 3. LOAN FLIPPING

You're responsible and have owned your home without problems for years. Your interest rate is OK, you make your monthly payments, but you could always use some extra cash. The lender comes along and talks to you about refinancing, about "making your equity work for you." You agree to refinance, and soon the lender is back offering a bigger loan for say, home improvements. If you accept, the lender refinances your loan and lends you additional money. When the lender does this "flip", he charges you high points and may even jack up your interest rate. You now have some extra money -- and a lot more debt stretched out over a longer time. To top it off, the loan will probably have a prepayment penalty, so if you try to pay early or refinance again, you pay a huge penalty.

The end result? The "extra" cash you received is probably less than the extra fees and points you are being charged. You're also paying interest on those fees. Each time you refinance this way, you get deeper and deeper in debt. Soon, you could lose your home.

### 4. THE HOME IMPROVEMENT LOAN

A contractor offers to do work on your home AND set up the needed financing through his lender. The contractor will then begin work and at some point, ask you to sign a bunch of papers. The papers may even be blank or what they say are "just legal stuff." The contractor tells you he won't finish the work if you don't sign. Later, you realize that what you signed was a home equity loan with high fees and points. On top of that, the work on your home is bad or incomplete and the contractor is nowhere to be found.

## 5. CREDIT INSURANCE PACKING

You're about to sign mortgage papers that you can afford when the lender gives you papers to sign that include charges for "credit insurance" or other "benefits" that you did not discuss. The lender may be hoping you don't notice and doesn't offer to explain the terms. If you object you may be told that the loan papers will have to be rewritten (taking several days) or that the company will have to "rethink" your loan. The lender may even tell you that the credit insurance comes with the lender, implying that it is free. Its not. If you sign, you will be buying a product along with your loan that you do not need.

## 6. SIGNING OVER THE DEED

You're having trouble with your mortgage payments when a new lender comes along to save you. They tell you that in order for them to help you, you will have to "temporarily" deed your property over to him. DON'T do this without consulting an attorney!! The financing he promised isn't going to come through. Once the lender has the deed, he treats it as his own. He may borrow against it (for his benefit, not yours) or even sell it. Since you don't have the deed, you won't get anything. The lender can start treating you like a tenant and treat your mortgage payments as rent. If your "rent" gets behind, you could be evicted from your own home.

## HOW TO PROTECT YOURSELF

Follow a few simple rules:

1. Don't agree to a loan if you are going to have trouble with the payments.
2. Don't EVER sign something you haven't read!
3. Don't be pressured or agree to things you don't want.
4. Don't sign away your deed to ANYONE.
5. DO ask specifically if credit insurance is part of your loan.
6. DO keep good records of payments, charges, etc.
7. DO read everything carefully.

If you don't understand a document, feel pressured or think you have to deed your home, SEE AN ATTORNEY FIRST!!!!

## LEGAL ASSISTANCE APPOINTMENTS:

For an appointment to see a legal assistance attorney, please contact the Legal Assistance Office, located in Building 610, Naval Air Station North Island, by telephone at (619) 545-6278.

## RESOURCES:

Federal Trade Commission (Consumer Response Center)  
Washington, DC 20580  
(202) FTC-HELP  
[www.ftc.gov](http://www.ftc.gov)