Home Loan Scams:

Borrower Beware!

1. **What are home loan scams?**

Home loan scams are unfair or misleading lending practices that can lead to you losing your home.

Some lenders and loan brokers charge high fees and high interest rates. Sometimes they cheat their customers. Often, bad loan terms are hidden from consumers. High pressure sales tactics are used to get them to sign. You may hear these practices called Apredatory lending@ because crooked lenders and loan brokers prey on their victims: trusting consumers.

Predatory lenders look for people with homes who need to borrow money. Then they lend you money even if they know you can=t repay the loan. The lender doesn't=t care if you can=t make the loan payments. They take a mortgage on your home when they make the loan, and they plan to take your house through foreclosure when you miss payments.

2. **What are the warning signs of a predatory loan?**

Predatory practices may occur at every step of the loan process.

Before you even apply, beware if:

- Someone calls you on the phone, or comes to your door, to ask you to take out a loan.
- You are referred to a lender by a home improvement contractor who wants to repair your home or install siding or a new roof.
- The same lender you already have wants to refinance the loan. They do this because each time you refinance, you are charged high fees for processing and closing the new loan. You may also be charged a penalty for early repayment of the first loan.

When you are applying, beware if:

- A loan broker or mortgage broker is involved. A loan broker or a mortgage broker doesn't work for a specific bank or finance company, but is a middle man who will add his fees to the cost of any loan he arranges for you. A shady loan or mortgage broker does not try to save you money. He will get you a loan with high costs, just so that he can get a kick back or quick fee. He charges a high fee for making a few phone calls. Sometimes he will falsify your income so that a lender will make the loan.

- The lender urges you to lie about your income or use other false information on the loan application so that you will appear able to make the monthly payments. This is very dangerous for you because it helps you get a loan you can=t afford. You may lose your home when you can=t make the payments.
- The loan broker or mortgage broker or lender pressures you into asking for more money than you need.

When you look at the terms of the loan you are being offered, beware if:

- You are pressured into applying for a loan you do not understand.
- You are being pressured into applying for a loan you can not afford.
- The loan has a high interest rate, or you cannot get a straight answer to what the interest rate will be.
- The loan has high up-front fees and costs, often thousands of dollars, or you cannot get a straight answer to what the fees and costs will be.
- Prepayment penalties are charged if you pay off the loan in the first few years. This is bad because it locks you into a high cost loan.
- You are required to buy credit insurance which will pay off the loan if you die or become disabled. These policies are expensive and often not needed.
- The lender requires one or more co-signers on the loan.
- The loan has a balloon payment. This means the final payment is much, much larger than the regular monthly payments. Usually you will have to get another loan to make the balloon payment. The lender is not required to loan you the money to pay the balloon payment. So you may not be able to borrow the money for the balloon payment when it comes due. You may lose your home then.
- You do not get a AGood Faith Estimate@ of closing costs you will have to pay. You should get this written AGood Faith Estimate@ within 3 days of the date you

applied for a loan. If you don=t get a AGood Faith Estimate@, call the lender or broker and insist on getting one. Be sure to read this AGood Faith Estimate@ carefully. You may be able to make a deal for lower fees. If you think the fees or costs are too high, you can reject the proposed loan. If you decided to take the loan, bring the AGood Faith Estimate@ with you to the closing. This will allow you to compare the costs you were told you would have to pay with the ones actually being charged.

At the closing:

- Back out of the loan if the terms of the loan you are asked to sign are different from those first discussed.
- Do not proceed with the loan if the papers you are asked to sign contain blank spaces. Either write AN/A@ or ANot Applicable@ in every blank, or make the lender fill in the information before you sign.
- Make sure you get a copy of all loan documents you have signed, and keep these in a safe place for at least five years.

3. What is refinancing?

Refinancing is when you pay off current loans or debt with a new loan.

4. Why can refinancing be bad for me?

Sometimes this is a good idea because your new loan rate will be lower than your current loan rates. However, refinancing can result in two big problems:

First, you may have to pay thousands of dollars in up-front charges and fees to the lender or broker for doing paperwork. These costs get added to your loan balance, so you may not see how much it costs you.

Second, the lender will make you mortgage your home as security for the loan. This is much worse for you than just owing money on a credit card or to a doctor. It=s riskier because when you mortgage your home, you may lose it if you fall behind in your payments. Beware: some lenders just don=t care if you can=t keep up with the monthly house payments. If you fall behind in payments, they get their money back by taking your home and having the sheriff sell it. Your lender is not required to work with you if you agree to a loan you cannot afford.

5. Can I lower my taxes by taking out a home equity loan or second mortgage?

Interest you pay on a home mortgage loan is deductible for federal income tax purposes. This may lower your tax bill, but only if you pay federal income tax and itemize your deductions instead of taking the standard deduction. However, even if you would be better off itemizing the interest as a deduction, you should be cautious before refinancing because:

You may change unsecured debt (money lent without mortgaging your home) into secured debt (money lent using your home as security).

Remember that many consumer loans or purchases (for example, credit card charges) are not secured and don=t directly risk your home.

6. Must a mortgage broker find me the best deal on a mortgage?

Mortgage brokers are NOT required to find you the best deal on a mortgage, and often don=t.

Mortgage brokers will receive a large fee that you must pay when the loan closes. The lender is not paying them, you are. This fee can be several thousand dollars. You will also be charged interest on the fee because it increases the amount of your loan.

To avoid paying these large fees, contact several lenders yourself before dealing with a broker. Look for the lowest up-front fees and costs, such as origination or discount fees, and the lowest interest rate.

7. I want to refinance my mortgage or take out a second mortgage or home equity loan. What does the lender mean by interest rate, APR, points, and fees?

- **Interest**

  Interest rate is the amount charged per year on a loan.

- **APR**

APR stands for the *Annual Percentage Rate* of the loan. It is stated as a yearly rate. Compare the APR=s when shopping for any loan. The lower the APR, the lower the cost of the loan to you. The APR takes into account not only the interest rate, which is very important, but also any points, mortgage broker fees, and certain other credit charges the lender makes you pay.

Lenders should be able to tell you the APR for your loan when you call them. Always compare the APR for each lender. Take the loan with the lowest APR. If a lender can not quote you an APR over the phone, they can at least tell you the interest rate, the points, origination fees, if any, and an approximate amount for all other fees. Then compare these with figures you get from other lenders.

Always ask if the APR is fixed or adjustable. Try to avoid an Adjustable Rate Mortgages (AARM@). Adjustable or variable rate loans usually offer a lower initial interest rate. However, the interest rate will go up when interest rates rise later. When interest rates rise, so do your payments. Payments almost never go down. The maximum and minimum interest rates you will pay must be set forth in the loan papers. They are hard to determine. Get someone to help you analyze the proposed loan before signing.

- **Points**

APoints@ are fees paid to the lender or mortgage broker for the loan. Usually the more points you pay, the lower the interest rate. The problem is that you are borrowing more money to pay the points. Whether it is a good idea to pay points to reduce your interest rate depends on how long you plan to keep the loan. If you do not plan to move for several years, you are probably better off paying points to get a lower interest rate.

Typically, one point is equal to one percent of the amount you borrow. Ask the lender or broker to tell you the points as a dollar amount. Then, you know how much you are paying.

- **Fees**

There are several other fees added to a home loan that increase the amount you borrow and reduce the cash you actually receive from the loan.

Examples include loan origination or underwriting fees, broker fees, and closing costs. Consider all of these costs before you agree to take out a loan. By law, the lender must give you a good faith estimate of these fees before the loan. Some fees may be negotiable. You can always tell them if you don=t want the loan.

Be sure to ask what each fee is for and get an explanation of any fees you do not understand.

8. My lender is telling me to get credit life or disability insurance with my home loan. Do I need it?

These insurance policies pay off some or all of the balance of your loan if you die or become disabled. Generally, buying such insurance is a big mistake. Figure out whether you really need the insurance. If you do need it, you don=t have to buy it from the lender. Be sure to check with an insurance agency for lower rates. Lenders charge more than if you get the policy through an insurance agency.

9. Why is credit life or disability insurance a bad deal? What should I look out for?

Usually, you don=t really need the insurance and it costs too much.

Ask if the insurance premiums will be financed as part of the loan. If so, you=ll pay interest and points on these premiums. This will increase the total cost of the loan. Find out how much your monthly payment would be without the insurance.

Find out whether the insurance policy has limits on coverage if you have already been diagnosed with an illness that later prevents you from working. The insurance will not make payments for you when you can no longer work even though you paid for the insurance. Also, read the policy carefully to make sure you are not over the age limit stated in the policy. Otherwise, the insurance company may refuse to pay off the loan when you die even though you paid for the insurance.

10. What if the lender insists that I buy insurance?

If the lender insists you buy credit life, disability, or unemployment insurance, and will not agree to let you buy it elsewhere, you have four choices:

a. Threaten to walk away from the loan - most lenders will go ahead with the loan anyway, without insurance. They were just hoping to earn a fee based on selling you the insurance.

b. Refuse to sign the loan. Don=t be forced into a bad deal if you have any alternatives available. Check with other lenders. Remember that you can walk away from a loan refinancing your home any time you want to, up to 3 business days after the closing.

c. Accept the loan, but be sure that you do not sign a statement that the insurance was not required. This may help protect your legal rights later.

d. If insurance is required, buy if from another insurer, preferably one the homeowner already has a relationship with.

11. What is Aflipping@?

The term loan Aflipping@ means tricking you into refinancing your mortgage in a short period of time.

12. Why is Aflipping@ bad for you?

The lender charges you high points and fees each time you refinance. Even if your interest rate goes down, your monthly payments will probably go up!

If your current loan has a prepayment penalty, you will have to pay that penalty when you take out a new loan.

Know that each refinancing raises your debt and costs you too much for some extra cash. You are digging a deeper and deeper financial hole for yourself.

After a while, if you get in over your head and can=t pay, you could lose your home.

13. What if I have already been scammed?

You can back out of a loan at any time before you sign.

Generally, you can cancel the loan within 3 business days of signing. This must be done in writing. The lender is required by law to give you two copies of a ANotice of Right to Cancel@ the loan when you go to closing. One of these copies is for you to cancel the loan by just signing and returning it to the lender within 3 business days of signing. Talk to an attorney immediately and follow the instructions on the Notice form.

Some legal rights to cancel continue beyond the 3 day period. But don=t count on it. Act within 3 days.

If you have signed a loan you think is a scam or if you are having trouble paying your loan, talk to an attorney immediately.

14. Is it too late to get help if a foreclosure has been filed against me?

No. A lawyer may still be able to help you by defending against the foreclosure if your rights were violated. You may also be able to file a bankruptcy to stop the foreclosure.

15. What is a Reverse Mortgage?

A reverse mortgage is a home mortgage loan that requires no repayment until the last surviving borrower moves, sells, or dies. It is only available to borrowers who are at least 62 years old. Unlike a regular mortgage, the amount of the loan balance owed increases during the life of the loan because you are not making monthly payments on the loan and because the interest you owe keeps growing.

Reverse mortgages are useful if you don=t have enough income for a regular loan and if you don=t want to leave the home to your heirs. A reverse mortgage can provide cash to pay off a less favorable loan, to help pay for home health assistants you need to stay in the home but that your insurance doesn=t cover, or to make improvements or repairs to your home. But they can be expensive, so caution must be exercised in dealing with a lender. Costs include an application fee, origination fee, closing costs, monthly service fee and interest. These costs are usually added to the loan balance (what you owe).

How much you can borrow will depend on the age of the youngest borrower, current interest rates plus loan costs and fees, and the value and equity of your home.

The borrower could be responsible for paying property taxes, insurance premiums for the homeowner's insurance, and be responsible for maintaining the property.

16. How can I avoid predatory loans?

You can:

a. Borrow money from a bank, credit union or savings and loan;

b. Read loan contracts before you sign them;

c. Learn about what all those terms mean;

d. Have a lawyer or trusted friend review the papers before you sign.

17. Where can I get legal help if I have been cheated?

LEGAL AID PROGRAMS

Each region in Louisiana is served by one of the 3 Legal Aid offices. If you need help finding your local office, call one of the following numbers:

$ **Acadiana Legal Services (800) 256-1175** serves the parishes of: Acadia Parish, Allen Parish, Avoyelles Parish, Beauregard Parish, Calcasieu Parish, Cameron Parish, Evangeline Parish, Iberia Parish, Jefferson Davis Parish, Lafayette Parish, Rapides Parish, St. Landry Parish, St. Martin Parish, St. Mary Parish, Vermilion Parish, Vernon Parish.

$ **Legal Aid of North Louisiana (800) 826-9265** serves the parishes of: Bienville Parish, Bossier Parish, Caddo Parish, Caldwell Parish, Catahoula Parish, Claiborne Parish, Concordia Parish, De Soto Parish, East Carroll Parish, Franklin Parish, Grant Parish, Jackson Parish, La Salle Parish, Lincoln Parish, Madison Parish, Morehouse Parish, Natchitoches Parish, Ouachita Parish, Red River Parish, Richland Parish, Sabine Parish, Tensas Parish, Union Parish, Webster Parish, West Carroll Parish, Winn Parish.

$ **Southeast Louisiana Legal Services (877) 521-6242** serves the parishes of: Ascension Parish, Assumption Parish, East Baton Rouge Parish, East Feliciana Parish, Iberville Parish, Jefferson Parish, Lafourche Parish, Livingston Parish, Orleans Parish, Plaquemines Parish, Pointe Coupee Parish, St. Bernard Parish, St. Charles Parish, St. Helena Parish, St. James Parish, St. John the Baptist Parish, St. Tammany Parish, Tangipahoa Parish, Terrebonne Parish, Washington Parish, West Baton Rouge Parish, West Feliciana Parish.

If you do not qualify for free legal aid, the Louisiana State Bar Association can help you find a private attorney who will charge a fee. Call them at 888-503-5747.

For legal information you can visit **LouisianaLawHelp.Org**

or **Louisiana Civil Justice Center** Updated: Sept. 2017

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