

PROTECT YOURSELF

Be cautious: Be suspicious of anyone who offers you a “bargain loan” or “consolidation” loan, whether they send you an offer, call you on the phone, or come to your door. Don’t rely on salespeople who promise easy credit. Be suspicious of anyone who contacts you first.

Shop around: If you need a loan, take your time and explore your options. You may qualify for a loan with lower rates from a reputable bank or credit union. Don’t forget that high-cost lenders are counting on your belief that you cannot get credit on better terms elsewhere. Do not let feelings of embarrassment about your past problems stop you from shopping around for the best credit terms. Whether you are borrowing for home repairs, medical expenses, or for other reasons, compare total costs of the loan **and** interest rates. A loan with a lower interest rate and high fees may be a worse deal than a loan with few fees and a higher interest rate.

Ask questions: Before borrowing money, know exactly what the lender is offering. You have a legal right to receive paperwork before the day you sign showing the total cost of the loan, the annual percentage rate, the monthly payments, how long you’ll have to pay back the loan, and a list of the closing costs. Make sure all fees and points are explained. Ask if there will be a balloon payment at the end of the loan term.

Read carefully: Whenever you borrow money, don’t sign anything you don’t fully understand. Ask for the papers in advance or ask a lawyer, trusted friend or family member to go with you to the loan closing. Never sign a document with blank spaces. Make sure the dates on the papers are correct too.

You can change your mind: You can back out of the loan at any time **before** you sign. If the loan terms change or something else surprises you, you can stop or delay the signing. If you’ve already signed a contract to borrow money that uses your home as security, and the money is for personal purposes other than purchasing the home, the law allows you to change your mind within three business days of signing the contract. This means you can cancel the loan, even though you already signed, and get a refund of your closing costs.

Get help: Seek legal help immediately if you think you have an abusive loan. Contact your local legal services or legal aid office to see if you qualify for free legal assistance, or contact the local bar association to be referred to an attorney.

Contact your county office of consumer affairs or your state Attorney General’s office to file a complaint. You can find their numbers in the blue (government) pages of your phone book. You can also report a complaint to the Federal Trade Commission at 1-877-FTC-HELP or visit www.ftc.gov. Contact your local AARP for educational resources or try the website at www.aarp.org.

HIGH-COST HOME LOANS:



**DON'T
BE A
TARGET**

NATIONAL
CONSUMER LAW
CENTER INC



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Phone: (617) 542-8010
Fax: (617) 542-8028
www.consumerlaw.org

Homeowners Beware!

You may be a target for abusive lenders trying to sell you a loan you can't afford. If this happens, you may be unable to make the high payments and lose your home at a foreclosure sale or spend all of your spare cash paying off a loan you didn't need or want.

SCAMS TO AVOID

Lenders use many scams to sell high-cost loans. Any one of these practices should tell you that something is wrong.

Loan Flipping: A lender refinances a loan over and over again. These lenders usually charge high points and fees, which are included in the amount financed—so you are paying interest on the loan **and** on the fees. The lender may also promise that you can refinance later if you are unhappy with the loan or that your monthly payment amount will go down if you make timely payments. These statements are usually false and just another way to get more fees from you.

Unaffordable Loans: A lender may sell you a loan you can't afford. If you can't pay, the lender can foreclose—taking your home, stripping you

of the equity you have spent years building, and blaming you for the false information on your application! You may also be unable to make high monthly payments because the lender charged you high fees.

Mortgage Brokers: Most abusive loans involve a broker. The broker should be interested in helping you, but the crooked ones are only looking out for themselves. The loan will always cost you more if there is a broker. Sometimes, the broker will sell you a loan that costs much more than is necessary and get a kickback from the lender.

Hidden Loan Terms: The lender includes a “balloon” payment (sometimes as big as the amount you are borrowing) that must be paid at the end of the loan term. A balloon payment is an amount due after you are finished making all of your monthly payments; most people need to take out a new loan just to pay off the balloon. The lender may also include expensive prepayment penalties which could prevent you from paying off your loan early with a cheaper loan from another lender. Another trick to get more money from you is to sell you a loan with

an “adjustable rate” that only increases. Your monthly payment will go up during the term of the loan, but never down.

Door-to-Door and Home Improvement Scams: A contractor offers to do some work on your home, saying he can also arrange the financing for this work through a lender. Once you agree, the contractor begins work. The lender then appears with papers to sign. The lender may rush you into signing the documents or the contractor may threaten to stop working until the papers are signed. If you sign, you may receive a more expensive loan than you were expecting—and the contractor may not be interested in finishing the job, since he has already been paid by the lender. Often, the contractor's work is poorly done and not worth the price you paid.

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