

Do Not Let Predators Take Your Home

**Know the Basic Facts about
Home Equity Fraud**



**This Department for the Aging booklet will help you
protect yourself against the loss of your home.**

Predatory lending often starts with a phone call, mailing, e-mail, television commercial, or knock at your door. The home improvement scam is one of many tactics predatory lenders will use to convince you to take out a home loan. Other predatory lending scams include offers of debt consolidation, mortgage refinancing, and the promise of extra cash.

The following story is just one example of a homeowner who fell prey to a predatory lender.

Mrs. L, 82, received a visit from a home improvement contractor who advised her that her roof was severely damaged and in need of immediate repair. He suggested that if repairs were not made quickly, her entire roof could collapse. The cost of the repairs seemed hopelessly unaffordable on her fixed income. The contractor seemed concerned. He offered to arrange a loan to pay for the repairs and to complete the work himself at a "reduced rate." Mrs. L signed what she later discovered was an overpriced home improvement contract and took out a \$32,000 mortgage to pay for the work.

The contractor began the job, and then disappeared halfway through completion. Mrs. L's house was a mess. When she received her first monthly bill, she was astonished. She never understood that the loan payments would be so costly. After falling a few months behind, the lender began foreclosure proceedings, and Mrs. L lost the home that she had lived in since 1971.

**Do NOT let this happen to you!
Protect yourself and your loved ones
by becoming familiar with
the facts in this booklet.**

What Is Predatory Lending?

In general terms, **predatory lending** is a process of misleading sales tactics that results in the origination of a loan to a borrower who ends up paying too much in fees, interest, and/or insurance. Lenders typically make these overpriced loans based on the equity the borrower has built up in his or her home, rather than on the ability to repay the obligation. Often borrowers do not fully understand or are not made aware of all the terms of the loan. Older borrowers often fall victim to unscrupulous lending scams in order to secure funds for necessary home repairs. Many borrowers do not have the financial capacity to repay the loan and are at risk of losing their homes.

Examples of predatory lending practices include:

- **Adding hidden costs and expensive extras into the cost of the loan**
- **Charging inflated interest rates and fees regardless of credit history**
- **Repeatedly refinancing or "flipping" the loan**
- **Falsifying the borrower's income**
- **Forging signatures on loan documents**

**If you decide to take out a loan,
talk to a reputable attorney,
financial counselor, or trusted person
BEFORE you sign or agree to anything.**

How Did Mrs. L Become a Victim of Predatory Lending?

The following examples illustrate commonly used predatory lending tactics that should alert you that you may not be doing business with an honest individual.

- **The contractor offered to help Mrs. L arrange funding for the cost of her home repairs.** Allowing a contractor to arrange a loan is almost never a good idea.
- **The salesperson pressured Mrs. L to make an immediate decision.** Even if you have some blemishes in your credit history (i.e., bankruptcies, collections, late payments) you may still qualify for a lower-cost loan through a major bank. Always shop around!
- **The lender guaranteed Mrs. L loan approval.** This is a red flag. If lenders are not concerned with your income or credit history, they may be after the equity in your home.
- **The lender persuaded Mrs. L to obtain a loan with repayment terms beyond her means.** Qualifying for a loan does not mean that you can afford it. Large debt payments quickly reduce a fixed monthly income, leaving little for essentials such as food and medicine.
- **The lender convinced Mrs. L to sign an incomplete application.** Make sure all

application information is filled in and correct before you sign. All of the terms should be spelled out, including any points and fees you are being charged, if the interest rate is variable or fixed, if the loan includes a balloon payment, and if there is a prepayment penalty.

• **Shortly after arranging the loan, the lender suggested that Mrs. L refinance and roll the balance of the loan into a new "lower-cost" loan.** Loan "flipping" always results in higher costs to the borrower and more fees and points for the lender.

Here are some steps Mrs. L could have taken to avoid losing her home:

- ✓ **Investigate the contractor.** Find out if the contractor is licensed (see the resource list on pages 8-10 for contact information).
- ✓ **Seek advice.** If any terms of the loan are confusing, do not sign.
- ✓ **Don't be afraid to change your mind.** You are entitled by law to cancel a loan transaction within three business days.

At Your Service...

- **Health Insurance Information Counseling Assistance Program (HIICAP)**
- **Home Energy Assistance Program (HEAP)**
- **Senior Employment Services**
- **Elderly Crime Victims Resource Center**
- **The Grandparent Resource Center**

The Department for the Aging (DFTA) offers these and many other programs designed to help maintain the quality of life and independence of New York City's older residents. For more information, including a calendar of events and a list of senior centers near you, call 311 or visit our website at <http://www.nyc.gov/aging>.

...the New York City Department for the Aging

Questions To Ask the Lender

Borrowers depend on the expertise of lenders to guide them through the complicated process of obtaining a loan. Most lenders are honest professionals. Unfortunately, there are also some who are not. If you are thinking of taking out a loan, make sure you understand the details of the contract and try to eliminate any penalties as part of the negotiation process.

Here are some questions that you will want to ask the lender:

- **What is the annual percentage rate (APR)?** The APR is the cost of credit expressed as a yearly rate, which lenders must disclose to borrowers under federal law. The APR includes the interest rate, points, broker fees, and certain other charges that the borrower is required to repay. In general, the lower the APR, the lower the cost of the loan to the borrower.
- **What points will I be charged?** Points are fees paid to the lender for the loan. Usually the more points you pay, the lower the interest rate. Ask for points to be explained to you in dollar amounts. One point equals 1 percent of the loan amount. For example, 1 percent of a \$100,000 loan would cost the borrower \$1,000. Look for loans with little or no points.
- **What fees will I pay?** Every lender should be able to give you an accurate estimate of its fees. Fees may be charged for application or loan processing, origination or loan underwriting, appraisal, document preparation and brokering. Fees are usually negotiable.
- **Should I consider taking out a "no cost" loan?** "No cost" (no fee) loans are sometimes available but usually involve paying higher interest rates. If you do not understand why you are being charged a certain fee, make sure the lender explains it. While in some cases you may be able to borrow the money to pay for these fees, you will increase the total amount and cost of your loan.
- **How much is the monthly payment?** Will it stay the same or change? For example, an adjustable interest rate may mean that payments are lower in the beginning of the loan and then increase as the interest rate rises.
- **Is there a balloon payment?** Often, after years of making low monthly payments, there will be a much larger payment due at the end of the loan. When the balloon payment is due, you must come up with the balance of the loan amount. If you can't, you may need another loan or be at risk of losing your home. Remember, a new loan means new closing costs, points and fees. If you decide to accept a loan with a balloon payment, make sure you understand how much will be due at the end of the loan and how you will pay for it.
- **Does the loan include a charge for any type of optional credit insurance?** Financing insurance will increase your monthly payments and the total cost of your loan. Ask if the insurance covers the length and the full amount of the loan. If it does not, ask yourself if this policy is useful for your situation. Before you buy credit insurance, check with other insurance providers and compare rates. Generally, financing insurance as part

of the loan will be much more costly than obtaining a separate policy.

- **Is there a prepayment penalty?** A prepayment penalty is an extra fee that may be due if you pay off the loan early. A prepayment penalty may force you to keep making monthly payments on a high-interest rate loan by making it very costly to pay it off early. Try to get a loan without a prepayment penalty.

- **What is the penalty for late or missed payments?** An increased interest rate condition says that if you miss a payment or pay late, you may have to pay a higher interest rate for the duration of the loan. Be wary of loans that include this provision. Try to avoid this provision.

- **What if the lender asks me to sign over the deed to my home?** Don't do it! If you sign over the deed to your property, you are basically giving your home away. Anyone who has the deed can sell your home or borrow against the equity. If you put another person's name on your deed, you are making that person a co-owner. As co-owner, someone could mortgage your property and then their creditors could take your home.

Where Can I Turn for Help?

EMERGENCY HOME LOAN PROGRAMS/FORECLOSURE PREVENTION

The Parodneck Foundation
(212) 431-9700

The SCHAP Program offers low interest/forgivable loans to seniors in need of home repairs. The Foreclosure Counseling and Default Intervention Program is open to homeowners in danger of foreclosure who are seeking advisement on available options. Referrals to financial and legal support services can be provided.

ALL BOROUGHES.

Neighbors Helping Neighbors
(718) 686-7946

Links clients to emergency loan, foreclosure counseling and home improvement assistance programs.

ALL BOROUGHES.

Fannie Mae Customer Service Resource Center
(800) 732-6643

Offers a referral database for victims of predatory lending.

ALL BOROUGHES.

Neighborhood Housing Services
(718) 230-7610 or (212) 519-2500

Foreclosure prevention counseling and information and referral services available in ALL BOROUGHES.

FINANCIAL COUNSELING

The U. S. Department of Housing and Urban Development (HUD) Housing Counseling Clearinghouse (HCC)
(800) 569-4287 or (888) 466-3487

Toll-free, 24-hour automated voice-response system that provides homeowners and home buyers referrals to local HUD-sponsored housing counseling agencies that provide services free of charge.

**New York State Banking Department
(877) 226-5697**

Provides a list of licensed credit counseling services.

LEGAL SERVICES

**South Brooklyn Legal Services
(718) 237-5500, (718) 855-0733 (fax)**

Legal assistance for low-income persons who believe they have taken out a predatory loan and are in default or facing foreclosure.
SOUTHERN AND WESTERN BROOKLYN ONLY.

**Predatory Lending Legal Assistance Hotline
(718) 246-3279**

Provides education and legal services to low-income senior homeowners who are at risk of foreclosure because of fraudulent loan practices.
ALL BOROUGHES.

**Jewish Association for Services for the Aged (JASA) Queens Legal Services for the Elderly
(718) 286-1500**

Provides assistance to seniors in need who believe they have taken out predatory loans, are facing foreclosure, or need assistance with fraud matters. Accepts clients on a case-by-case basis.
QUEENS, BROOKLYN, and MANHATTAN.

**St. John's University Elder Law Clinic
(718) 990-6689**

Offers legal assistance to seniors in handling consumer fraud cases.
ALL BOROUGHES.

HOME IMPROVEMENT HELP

**The New York City Department for the Aging (DFTA)
Call DFTA via 311**

The Department can help guide and refer you to a number of government and community-based resources including home repair programs, weatherization services, housing resources, help for elderly victims of crime and elder abuse and legal services in all five boroughs.

ACCESSING YOUR CREDIT REPORT

It is important to obtain credit reports from all three credit bureaus (listed below) to check for inaccuracies that may affect your rating.

Equifax: (800) 685-1111

**Trans Union National Disclosure Center
(800) 888-4213**

**Experian National Consumer Assistance Center
(888) 397-3742**

LICENSE INFORMATION

**New York State Banking Department
(877) 226-5697**

The Banking Department will let you know if the lender and broker you are dealing with are licensed.

**New York City Department of Consumer Affairs (DCA)
Call DCA via 311**

DCA provides information on filing formal complaints and also allows you to check the license of home improvement contractors.

ENFORCEMENT AGENCIES

If you are a victim of predatory lending, contact any of the enforcement agencies below.

**New York State Attorney General's Office, Consumer Helpline
(800) 771-7755**

**New York State Consumer Protection Board (CPB)
(800) 697-1220**

**Federal Trade Commission, Consumer Response Center
(877) 382-4357**

ARE YOU A CAREGIVER?

Do you help an older person...

- pay bills?**
- prepare meals?**
- bathe and dress?**
- perform other daily tasks?**

If so, then you are a caregiver.

We can help with respite care and other support services.

For information regarding these and other City services, call 3-1-1.

City of New York, Michael R. Bloomberg, Mayor

Department for the Aging, Lilliam Barrios-Paoli, Commissioner

For information on all City services



Michael R. Bloomberg
Mayor
City of New York

Lilliam Barrios-Paoli
Commissioner
New York City
Department for the Aging



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Visit the Department for the Aging's Website at www.nyc.gov/aging.

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