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# HOW TO PROTECT YOURSELF FROM HOME IMPROVEMENT AND HOME EQUITY FRAUD

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**M**any senior citizens have spent years building equity into their homes. Unfortunately, scam artists have developed home improvement and home equity schemes targeted at separating unsuspecting seniors from their most valuable asset – their homes. This report will provide you with some important tips on how to protect your equity in your home.

## HOME IMPROVEMENT LOANS

There are several different ways that home improvement related scams can impact your financial security. In one popular scam, a home improvement contractor comes to your door claiming to have supplies left over from a job just completed in your area. He offers to repair a problem that he has noticed (such as a cracked driveway or a chimney) and offers a “great deal” on this repair with a “limited-time offer.” He may even offer to help you finance the repair. At this point, or sometimes even after work has begun, the contractor will show you a lot of different papers and ask that you sign them. Usually, these papers will be a home equity loan, often with excessively high interest rates and fees. If you sign these papers you may owe money you cannot afford to pay – with your home as the collateral. You also could be working with a contractor who will not complete the work at all, or will do a shoddy job.

### **To protect yourself from this type of hoax:**

- Be wary of offers from a contractor that solicits business by telephone or by coming to your door. Verify them with your local Better Business Bureau.
- Get any promises in writing and make sure that all verbal agreements are included. Make sure that the contract is dated and shows the name and address of the seller. **Never sign any document that you haven't read. Never sign anything with blank spaces.**

- Ask for references. To be safe, always use a contractor that is licensed and call the licensing agency in your area for verification.
- Beware of large up-front payments. Negotiate a payment schedule that corresponds with the completion of portions of the job. If possible, pay only by check or credit card. If the payment is in cash, make sure to get a proper receipt. Never pay the entire amount up-front.
- Under federal law, you have three days to cancel a contract for home improvement. The contractor must receive written notice of a cancellation in order for it to be valid.

## HOME EQUITY OR HOME REFINANCING LOANS

In some instances, homeowners who need cash, or have fallen behind in their payments, look to refinance their home. Always remember that if you cannot make the payments required in the loan – either the monthly amount is too high, or there is a balloon payment at the end – you risk losing your home. Other lenders encourage you to regularly refinance your home – a practice called flipping – and with each refinance you will be adding on additional costs and fees. While you may have obtained some ready cash, you have also increased your debt.

### **Some specific items to watch out for:**

- **CREDIT INSURANCE:** Legitimate lenders can require that you purchase credit insurance to insure that the loan can be paid in the event that you are not able to do so. However, some lenders may push you into buying insurance from them at inflated rates or may insist that you purchase insurance that you don't need. A number of lenders advertise low rates to
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lure seniors in, and then switch to a higher rate once potential customers are in the office. In fact, some lenders will never mention that they have included fees for credit insurance in your loan package and will simply hope that you sign the papers without asking for an explanation. Don't agree to buy insurance, or any other product, until you are fully informed about the need and value of the product and have had an opportunity to compare prices to make sure you are being offered a fair rate.

- **BALLOON PAYMENTS:** A balloon payment means that you are taking out a loan for some period of time, and paying only the interest on the loan on a monthly basis. At the end of the loan, you will be asked to pay back the principal in just one large payment. That is called the balloon payment. If you cannot pay, you will face foreclosure on your home.

#### Here are some tips on how to protect yourself:

- Never accept a loan if you don't have the money to make the monthly payments. Do not let a lender convince you to falsify any information on an application (such as saying your income is larger than it is or stating the loan is for business purposes when it is not).
- Make sure to read over every portion of a loan agreement. Check for balloon payments that you might not be able to afford. Look for prepayment penalties or hidden fees. Do not sign a loan agreement if the terms are not what you originally agreed to. Ask for an explanation of any dollar amount, term, or condition that you do not understand. Every time you refinance you may be subject to extra fees.
- Check with your state Attorney General for information on specific laws that may protect you.
- Ask if credit insurance is a requirement of the loan. If not, shop around for the best prices. If insurance is required, it may not be required for the whole term of the loan. Do not agree to a loan that has extra credit insurance or any other products that you don't want.
- Make sure to keep careful records of what you have paid, including billing statements and cancelled checks. Immediately challenge any charges that you think are inaccurate.
- Never sign anything regarding the ownership of your property without consulting an attorney, a knowledgeable family member, or someone you trust.

Always report fraudulent lending practices or contractors to the government agency in your area or to your local Better Business Bureau. For more information or to file a complaint contact:

- **CONSUMER RESPONSE CENTER -**  
Federal Trade Commission,  
600 Pennsylvania Avenue, NW, Washington, DC  
20580, 877-FTC-HELP (382-4357), [www.ftc.gov](http://www.ftc.gov)
- **AMERICAN ASSOCIATION OF RETIRED PERSONS (AARP) -**  
601 E Street, NW, Washington, DC 20049,  
800-424-3410, [www.aarp.org](http://www.aarp.org)



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