

Avoiding Financial Traps

*Recognizing and Steering Clear of Tricks,
Scams, Fraud, and Other Traps*



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Because lending transactions often seem complicated, it's not unusual for borrowers to rely on the expertise of professionals for guidance through the process. But what if the "professional" you choose is actually a scam artist or predator looking to push you into a costly or risky situation? If you don't know the signs of a potential scam, you could become a victim. It's very important, especially in these tough economic times, to recognize and avoid pitfalls and traps that can damage your credit, cause financial hardship, and in some cases, even cost you your home.

Recognize the Signs of Predatory or Abusive Lending

Marketers send offers every day — offers of credit, home equity loans, mortgage life insurance, refinances, and more. It's important to understand the difference between legitimate opportunity and predatory or abusive lending. Here are some signs that should raise suspicions:

- Repeatedly encouraging you to refinance your loan within a short period of time (known as "mortgage flipping") and charging high points and fees with each refinance. The company may claim that you're getting better rates each time, but be sure to consider how much you're paying in additional fees and interest with each new loan transaction.
- "Packing" a loan with single premium credit insurance products, such as credit life insurance, and not adequately disclosing its inclusion, cost, or additional fees associated with the insurance.
- Charging excessive rates and fees to borrowers who actually qualify for lower rates and fees.
- Including "balloon payments" — a large one-time payment — at the end of a payment schedule that disguises the true, higher-than-expected, cost of the loan.

Scams To Avoid

Some common scams or fraud to avoid include the following:

- **MHA Opportunists:** Someone asks you to pay a fee in exchange for a counseling service or modification of a delinquent loan. If you're having trouble paying your mortgage, the federal Making Home

Affordable Program (MHA) offers help through refinancing and loan modifications at **no** cost to you.

- **Home Title Scam:** Someone offers a loan or fast cash in exchange for the title to your home. You continue to pay the mortgage, but you are no longer the owner of the property.
- **Equity-Skimming Foreclosure "Rescue" Scam:** Someone offers to pay your delinquent mortgage by purchasing your home. In turn, you can stay in the home as a renter with the option to buy back the house when your financial situation improves. Then the "buyer" cashes out your hard-earned equity and disappears.
- **Foreclosure Rescuers:** They pose as professionals and promise to stop foreclosure, often at a high price. When they don't deliver, you are left short on cash and out of the home.
- **Home Improvement Loan Scam:** A contractor requires money up front, but doesn't complete the work. In other cases, the contractor completes the work, but for well above the original estimate.
- **Post-Disaster Insurance Scam:** In the wake of a disaster, someone offers you money in exchange for money you will get later from the insurance company. You end up getting much less from the individual than the insurance company actually would have paid you directly.
- **Short Sale Fraud:** An unscrupulous real estate agent, mortgage broker or other industry professional may attempt to facilitate the sale of your home to an affiliated party at below market value, with plans to resell it immediately to a third party for an immediate profit. Although this may achieve your

goal of avoiding foreclosure, it may be considered fraud if your lender was misled regarding the value of your property.

Avoid Borrowing Pitfalls

When applying for a loan, follow these tips:

- **Say NO to “easy money.”** Beware if someone claims that your “credit problems won’t affect the interest rate.” If a solicitation is really appealing, get it in writing, and then seek a second opinion.
- **Shop around.** Always talk to several lenders to find the best loan. A loan product or lending practice may seem reasonable until compared with similar loan products offered by other lenders.
- **Find out about prepayment penalties.** Know if the loan offered to you charges a fee if you pay off your loan early. If it is a requirement of the loan, ask about other products that do not contain this type of penalty.
- **Make sure documents are correct.** Beware of anyone offering to falsify your income information to qualify you for a loan. Never falsify any information or sign documents that you know to be false.
- **Make sure documents are complete.** Do not sign documents that have incorrect dates or blank fields. Be wary of promises that a lender will “fix it later” or “fill it in later.”
- **Ask about additional fees.** Question any items you didn’t request or know about prior to the time you are asked to sign the loan documents. When you get to the closing table, if any fees or charges differ from what was previously disclosed, delay the closing until all terms are understood.
- **Understand the total package.** Ask for written estimates that include all points and fees. Compare the annual percentage rate (APR), which takes into account both the interest rate and the points and fees of the loan.
- **Work with legitimate credit counselors.** Beware of scam credit counseling and credit consolidation agencies. Get all the facts before deciding to combine credit card or other debts into a home loan.
- **Protect home equity.** If you are taking equity out of your property, only take the minimum. The equity in your home typically builds up slowly over time, so it’s important to try to preserve it.
- **If you’re not sure, don’t sign!** Get advice first from a reputable consumer credit counseling agency or housing counselor.

For More Information

- Avoid scam artists! Learn about common scams in your area, and get advice before you enter into your next loan agreement. Read more about common fraud schemes at [FreddieMac.com/avoidfraud](https://www.FreddieMac.com/avoidfraud).
- The Freddie Mac CreditSmart® curriculum is a consumer guide to better credit, money management, and responsible homeownership. Visit [FreddieMac.com/creditsmart](https://www.FreddieMac.com/creditsmart) to download consumer resources, available in five languages.
- “About Homeownership” is the Freddie Mac online guide to the homebuying process and successful homeownership. Visit [FreddieMac.com/homeownership](https://www.FreddieMac.com/homeownership).
- Visit the Avoiding Mortgage Fraud section of Buying and Owning a Home, Freddie Mac’s online guide to the homebuying process and successful homeownership: [FreddieMac.com/avoidfraud](https://www.FreddieMac.com/avoidfraud).
- To find a HUD-approved housing counseling agency near you, visit http://portal.hud.gov/hudportal/HUD?src=/i_want_to/talk_to_a_housing_counselor or call 800-569-4287.
- To learn more about the federal Making Home Affordable Program, visit www.MakingHomeAffordable.gov.

Source

Content adapted from the following:

- Freddie Mac’s award-winning CreditSmart, a multilingual financial education curriculum designed to help consumers build and maintain better credit, make sound financial decisions, and understand the steps to sustainable homeownership.



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