

# CONSUMER'S EDGE

CONSUMER PROTECTION DIVISION, MARYLAND OFFICE OF THE ATTORNEY GENERAL

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## HOME EQUITY LOANS: BEWARE OF PREDATORY LENDING

*An older woman's home was paid off before a salesman talked her into a 12% home equity loan to pay off credit cards. He said she could reduce her monthly payments from \$500 to \$350. He didn't tell her about the large "balloon" payment that was due in three years. She lost her home to foreclosure.*

*Another Marylander knew his credit rating wasn't the best, but he needed to pay medical bills. He thought the 16% home equity loan offered by "the helpful person" who called him on the phone was the best he could get. He could have gotten a better rate by shopping around.*



Thinking about borrowing money? Because of the risks involved, think twice before accepting offers to use the equity in your home to secure the loan.

Many elderly, low- or moderate-income, and minority homeowners have been hurt by "predatory

lenders." These aggressive, dishonest lenders advertise their services to people in financial need—people who may have fallen behind on property taxes, need money for medical bills, or face costly home repairs.

Instead of offering a fair loan, a smooth-talking salesperson may set you up with high interest rates, outrageous fees, and unaffordable repayment terms. You could end up with a loan that you cannot afford to repay, and risk losing your home to foreclosure.

### How to Be a Smart Borrower

**Be cautious.** Be suspicious of anyone who offers you "bargain loans," 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. Don't be fooled by loan offers you see on television or receive in the mail or by email—they don't always tell the full story.

**Shop around.** If you need a loan, see if you are eligible to get one from a local bank, credit union, or mortgage company. Compare total costs of the loan as well as interest rates. Understand the points and fees. A loan with a lower monthly payment is not always the better deal; it may have a high balloon payment that is due in a few years.

**Be wary of financing offered by a home improvement contractor.** Dishonest mortgage brokers and contractors sometimes work together to take advantage of homeowners. Make sure you understand what kind of financing you are being offered. For example, is it an unsecured home improvement loan, a second mortgage, or a refinancing? To protect yourself, shop around for financing from lenders not associated with the contractor.

Ask a lawyer or housing counselor to review the financing terms with you.



**Call the State to check out mortgage lenders.** Call the Maryland Office of the Commissioner of Financial Regulation at 410-230-6100, or toll-free at 1-888-784-0136, to find out if the mortgage lender is licensed, as required, and to find out if complaints have been lodged against the lender.

**Know your credit rating and credit score.** Sometimes people who have good credit are charged higher “subprime” rates and fees for loans because they don’t know that their credit is good. Get your credit report from the three credit bureaus below. Maryland residents are entitled to a free copy of their credit reports each year. You can also request your free credit reports by visiting [www.annualcreditreport.com](http://www.annualcreditreport.com).

- Equifax: 888-378-4329, [www.equifax.com](http://www.equifax.com)
- Experian: 888-397-3742, [www.experian.com](http://www.experian.com)
- TransUnion: 833-395-6938, [www.transunion.com](http://www.transunion.com)

Your credit score is a number that lenders use to decide how much of a credit risk you are. Most credit scores range from 300 to 850, and the higher the score, the better your credit. Most lenders consider scores over 700 as “good” to “excellent” scores. You can obtain your credit score from several sources: A lender can give you a free copy when you apply for a loan (avoid lenders who won’t give your score to you); you can purchase it from one of the credit bureaus listed above, or possibly get it for free when you enroll in one of the bureaus credit programs; or there are a number of credit card companies that provide free credit score information as one of the benefits of the card.

**Ask questions.** Before borrowing money, know exactly what the lender is offering. You have a legal right to know the total cost of the loan, the annual percentage rate, the monthly payments, and how long you have to pay back the loan. Ask questions until you understand everything. It’s important to know more than the monthly payment.

**Read carefully before you sign.** Always assume that any paper you sign is a contract. Before you sign the loan papers, ask a lawyer or trusted financial adviser to go over them with you. Don’t sign a document with blank spaces.

**Avoid “balloon” payments.** One way that lenders make loans seem attractive is to make the monthly payment small but require a big balloon payment at the end of the loan period. Lenders may promise

to help you refinance when it comes time to pay it off, but watch out! Predatory lenders make money by charging excessive fees every time they refinance the loan.

**See a housing counselor to discuss your options.** You can locate counselors certified by the U.S. Department of Housing and Urban Development (HUD) by visiting [https://www.hud.gov/i\\_want\\_to/talk\\_to\\_a\\_housing\\_counselor](https://www.hud.gov/i_want_to/talk_to_a_housing_counselor) or calling 800-569-4287.

### **Seniors: Consider a Reverse Mortgage**

If you are a homeowner age 62 or older, a reverse mortgage may be better than getting a home equity loan. A reverse mortgage gives you money that doesn’t have to be repaid until you move, sell the house, or die. You choose to get the money as a lump sum payment, a monthly income, or a combination of both. If you get a reverse mortgage, you can’t lose your house to foreclosure the way you could with a home equity loan. A reverse mortgage does use the equity in your home, and can also cost you more in fees, so consider your options carefully. Get advice from a lawyer or a financial adviser about whether a reverse mortgage is right for you.

AARP and AARP Maryland provided information in this issue. Material used by permission.

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## HOW TO CONTACT US

### **Consumer Protection Division**

200 St. Paul Place, 16th Fl., Baltimore, MD 21202

- **General Consumer Complaints:** 410-528-8662  
Toll-free: 1-888-743-0023 TDD: 410-576-6372  
En español: 410-230-1712  
9 a.m. to 3 p.m. Monday-Friday  
[www.marylandattorneygeneral.gov/Pages/CPD/](http://www.marylandattorneygeneral.gov/Pages/CPD/)
- **Health Consumer Complaints:** 410-528-1840  
Toll-free: 1-877-261-8807 TDD: 410-576-6372  
En español: 410-230-1712  
9 a.m. to 4:30 p.m. Monday-Friday  
[www.marylandcares.org](http://www.marylandcares.org)
- **For information on branch offices** in Largo, Salisbury, Hagerstown, and a full list of offices across Maryland, visit: [www.marylandattorneygeneral.gov/Pages/contactus.aspx](http://www.marylandattorneygeneral.gov/Pages/contactus.aspx)

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