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## Avoiding Home Equity Mortgage Scams: The Bait and Switch

Your home equity can be one of the best financial resources available to you when you need some extra cash. Equity is the difference between the total value of your home and the remaining balance you owe on your first mortgage loan. For example, if your home is appraised at \$200,000 and you still owe \$175,000, you own \$25,000 in home equity. You can actually borrow against this asset when necessary. One of the most popular ways to cash out on your equity is with a home equity mortgage. This is a type of second mortgage that allows you to pull out funds based on your current equity and using your home as collateral again.

Home equity mortgages can be risky just because you are putting further stress on your ability to make home loan payments by adding a second loan. Home equity mortgages with good rates and terms can be manageable though. You should be careful however to avoid lender scams aimed at conning you out of your money. One of the common home equity mortgage schemes to watch out for is the “bait and switch” method.

The bait and switch tactic refers to a deceptive lending practice where a lender will lure you into a loan with certain attractive features like a good interest rate and small closing costs, only to “switch” the terms on you when it comes time for closing. Unfortunately this practice seems to be most prevalent among sub-prime lenders. One California study concluded that a full 75% of the 125 people surveyed applying for sub-prime loans saw at least one main factor in their loans change for the worse at closing. If you must apply for a sub-prime loan because of bad credit, be especially wary of lenders who make promises and then do not deliver.

One of the ways dishonest mortgage lenders pull these schemes off is by downgrading the loan terms just before closing, leaving borrowers desperate for the cash with little alternative. Then the lender conveniently becomes unreachable. You may sign just to close the deal and figure you will try to get the terms worked out later. Once the lender has your signed contract though, the commitment to the less favorable terms is legal and you are stuck with the loan as is.

Another form of baiting and switching is when a lender sets a two part loan, the first starting out with a higher rate, and then a second loan to reset the rate later on. Once you sign on for the first loan though, your lender may not actually let you get into the second better loan. He may tell you that you must wait several more months, or that the second loan is not within the bounds of the original contract. And if the lender refuses to your return calls, or seems to “disappear from off the face of the earth,” you should know you have run into a problem.

To avoid getting “hooked” by a bait and switch lending scheme, be careful and deliberate in choosing your mortgage lender. Try to get referrals from friends and neighbors. Check the lender’s history with the Better Business Bureau as another means of caution. And if you ever feel uncomfortable or doubtful about your lender’s intentions, find a new lender.