

What Is Home Equity?

Home equity is the current value of your home minus any money you owe on the home. If you own a home, the equity can be used to help you get a loan. Sometimes it is a good idea to take out a loan against your home's equity as long as the terms are reasonable and you have the ability to repay.

What Is A Home Equity Loan?

When most Americans need money, they take out a loan. To get a loan, the lender usually requires that you give some guarantee that you will pay the loan back. For a home equity loan, you secure the loan with your home.

Typically a home equity loan works like a credit card. It provides the borrower with a revolving credit account that includes a line of credit and a series of checks to access the line. Usually the line of credit can be accessed for at least 5 years from the start date of the loan. During the access period many lenders only require the borrower to repay the interest on the loan. After the access period, you can no longer draw money from your credit line even if a balance is available. At this point the loan is in the repayment period and you are required to pay both the principal and the interest due on the total balance of the money that you borrowed.

Most home equity loans require loan repayments over a period of between 10 and 20 years. Remember, even if you make all of your minimum payments during the access period of your loan you may have paid only the interest on the loan and not any of the principal.

What Is Home Equity Lending Fraud?

Home equity lending fraud is different than other types of fraud. Here, unscrupulous lenders seek you out, often by phone or visiting you at home unannounced. They trick you into taking a loan against the equity in your home at unusually high interest rates and fees. These lenders offer the loan to you whether you can pay for it or not. If you don't make your payments, the lender can take your home.

IF YOU DON'T PAY YOUR LOAN, YOU CAN LOSE YOUR HOME!

When you fall behind on your payments, the lender can take your home and your equity through a legal process called foreclosure. The lender then owns your home. At this point, it is nearly impossible to get your home back. Many people all over the country have either lost their homes or their equity to unscrupulous lenders. Over 100,000 people in 29 states have fallen victim to home equity lending fraud. Most are senior citizens.



How to Protect Yourself

The best protection against home equity fraud is to be an educated consumer. Don't be afraid to ask other people for advice. Seek out credit counseling before you sign anything. Be wary if you encounter any of the following, as they may signal trouble:

- Documents with blank spaces (e.g., The lender gives you papers to sign and the date or the loan amount is left blank).
- Door-to-door salespersons offering you easy credit (e.g., People knocking on your door offering you money even if you have no credit history or have a bad credit history).
- A deal that sounds too good to be true (is usually too good to be true).
- Offers of debt consolidation. While such offers may seem attractive at first, they can turn out to be a very costly "convenience" (e.g., the lender offers to pay off your credit card bills and your medical bills with the home equity loan).
- Excessively high interest rates.
- Excessive prepayment penalties (e.g., the loan contract with a fixed interest rate which requires that you pay a large penalty if you repay the loan early).

