

What should I know about rural housing direct loans (Section 502)?

What is a home scam?

Beware of scammers when entering into any kind of contract involving a home. Whether you are buying, facing foreclosure, repairing, or selling your home, you could be targeted by scammers. Scammers use illegal methods to steal your money and property.

Home buying scams

Some dishonest investors pretend to sell houses rather than renting or actually selling them. Sellers will overprice the house and set the monthly payments just beyond the buyer's ability to pay. The seller hopes the buyer will default, lose the house and the down payment.

Scams to look out for when buying an existing home

These sellers typically use one of the methods listed below to accomplish their goal.

- Lease with an option to purchase is the most common home purchase scam. Suppose you want to buy a house but cannot qualify for a mortgage loan. The seller makes you a deal. You pay the down payment up front, rent the house for a specified time (usually a year) and in the meantime find financing to purchase the house. Usually the rent is overpriced but you're willing to pay because you think you'll own the house in a year. When the time comes to buy the house and you still can't qualify for a mortgage loan, the seller evicts you. The seller keeps the house and your down payment.
- Contract for deed or land contract is essentially a rent-to-own agreement for a house. The seller provides financing and you think you own the house subject to the mortgage loan. But the contract says that the seller won't transfer the title until the last payment is made - 20 years later! If you miss even a single payment, the transaction becomes a lease agreement. The seller then evicts you for non-payment of rent and keeps the house, the down payment and all the equity you have worked to accumulate.
- The seller-financed wraparound mortgage is possibly the most complex home purchase scam. Again, suppose you cannot qualify for conventional mortgage loan. The seller offers to finance a new mortgage which "wraps" around the previous mortgage. You make monthly payments to the seller, who in turn makes payments on the original mortgage and keeps the rest. (You run the risk of foreclosure if the seller does not make the payments on the original mortgage.) The seller over prices the house and sets the monthly payments just below your income, guaranteeing that you will miss a payment. Then the seller forecloses, buys the house at the foreclosure sale, evicts you, and keeps the down payment.

Scams to look out for when buying a new home

All home buyers buying a new home should beware of home builder fraud. Some housing developers make money by cutting corners when building houses. Then they sell the defective properties to unsuspecting homebuyers. Once the house is bought, it is often hard to get the developer or the warranty insurance company to make repairs. The homebuyer gets stuck with the bill and a house worth much less than the sale price.

You should always hire an independent inspector to make sure the house is in good condition. The inspector can determine what repairs should be made, whether the house is new or previously owned.

Home equity scams

A home equity scam is when someone tries to steal the equity you've built up in your home. Home equity is the current market value of your home, minus what you owe.

Scams to look out for when refinancing your home

- Debt consolidation is a popular scam to steal your equity. Either a mortgage broker or a mortgage lender will contact you and offer to pay off your debts with a single mortgage loan. This single loan is almost always more expensive over the long run than all your debts combined. Often the mortgage broker or lender pressures you to borrow more money than you really need to pay off existing debts. The more you borrow, the more they profit. You'll most likely wind up further in debt than you were to begin with. If you default on the mortgage loan you could even lose your home.
- Loan flipping is an especially devious scam that usually follows on the heels of one of the others. A short time after you take out a mortgage, your lender might contact you and offer to refinance your loan. The lender promises to make the terms more affordable. However, the lender usually flips you into a new loan just as bad or even worse than the one before. Each time you get flipped, the lender charges a new set of fees, increases your total debt and extends your period of indebtedness. You either lose your home to foreclosure or end up with payments so high you spend all your income in a desperate struggle to hold onto your home.
- Foreclosure assistance fraud is the most common title conversion scam. Suppose you are in default in your mortgage loan and facing foreclosure. A crook approaches you and offers to lend you enough money to catch up the back payments and save your home. You sign the papers, believing that you are getting a loan. But the papers actually say that you are selling your house to the crook for the price of the loan! The crook gets the title to your house and you get evicted.

Scams to look out for when hiring someone to improve your home

Home improvement fraud is perhaps the most common scam. Be extremely careful if you are solicited for a new roof or other home repairs by phone or by a door-to-door salesman. Many of these contractors are crooks. They will overcharge you for their services and steer you to a high-cost mortgage lender to finance the repairs. The contractor pockets the loan proceeds and performs shoddy, incomplete work or no work at all. You're left paying off the mortgage loan for years to come.

Homeowner scams

Scammers often target homeowners who are:

- elderly and/or disabled,
- those who are facing foreclosure or struggling financially, and
- homeowners of color, especially those in gentrifying communities

They target homes that either have no mortgage or carry a low mortgage balance, older homes in need of repair and homes in areas that are gentrifying.

Some of the most common scams targeting homeowners include:

- Quick, “as-is” Sales: Scammers offer to buy your home “quick” and “as-is.” Scammers don’t want you to take time to evaluate whether the deal is fair and legitimate and whether your interests will be protected.
- Aggressive tactics: Scammers make repeated phone calls, send multiple solicitation letters, and make unannounced visits to your home in order to catch you in their trap.
- Bad advice: Scammers say you don’t have to worry about paying a real estate agent. They promise that they “take care of everything.” But the scammer takes care of himself, and you have no one to protect your interests.
- Low purchase price: The scammer doesn’t show you any legitimate comparable sales and pays you a small amount. The scammer then turns around and sells it to someone else for a large profit.
- Your mortgage is not paid off: Scammers take title to your home and in some cases do not pay off your mortgage. You try to buy or rent another place, but can’t because the mortgage on the house you sold is still in your name and on your credit report.
- Fake liens are added: Scammers add fake liens to your property, which they falsely claim must be paid at closing. This leaves less money for you and more to the scammer and his confederates.

What are my rights to protection from home scams?

These scams are illegal. If you are a victim of a scam, you should contact an attorney to enforce your rights.

If you are concerned that you are being targeted by a scammer, contact a reputable non-profit housing or financial counselor. They can help you figure out if the offer is legitimate.

What are my responsibilities?

You are responsible for reading and understanding every document you sign.

- Ask for help from a trusted financial counselor or lawyer if you do not understand the terms.
- If a document has blank spaces, do not sign it.
- If the document has errors or false statements, do not sign it.
- Get every promise in writing.
- Keep a copy of any document you sign.
- If it seems too good to be true, it probably is.

What can I do to avoid scams if I am interested in purchasing a home?

Remember, your first step should be to apply for a purchase mortgage loan with a conventional lender before you begin house hunting. Frankly speaking, without good income, excellent credit, and a reasonable down payment, it is difficult to qualify for a mortgage from a bank or other conventional lender. Without appropriate precautions your dream home could turn into a nightmare. With that being said, take the following steps to make sure you don't sign onto a bad deal:

- Visit your local nonprofit housing counseling center. Set up an appointment with a counselor to evaluate your options and enroll in a free homebuyer's workshop.
- Have an expert (a lawyer or a housing counselor) examine the purchase agreement and all other documents before you sign anything.

- Hire an independent inspector to make sure the house is in good condition whether the house is new or previously owned.
-

What can I do to avoid scams if I am interested in having home repair done?

Follow these simple guidelines:

- Be sure your contractor is reputable - know whom you are hiring. Do not hire people who ring your doorbell and tell you your roof needs repair or your gutters need fixing. Get the names of at least three references and call them. Find out how long the job took and the quality of the work.
 - Don't use contractors who offer to do the job using material left over from another job.
 - Don't use a contractor who tries to pressure you into making a decision.
 - Find out what kind of insurance the contractor has. Hire people who have a current certificate of insurance.
 - Never pay a large sum up front. Instead, negotiate a time table and payment schedule where you will pay the contractor as work is completed.
 - Get it in writing. Insist on a contract that specifies:
 - the work to be done,
 - the time it will be completed,
 - the materials to be used,
 - the names of any subcontractors
 - and the schedule of payments.
 - Get the subcontractors to waive their right to put a lien on your home if the contractor doesn't pay them.
-

What can I do to avoid scams if I am interested in selling my home?

As housing prices skyrocket, scammers and investors prey on unsuspecting homeowners. Their goal is to steal the title to the home and all the equity in the home. Investors who attempt to buy your home quickly will pay you far less than what your home is worth. Do not sign anything without getting advice from your own lawyer.

Ways you can protect your investment:

- If you don't want to sell your home but you are struggling with your mortgage or property taxes, call your local legal aid office.
- If you really want to sell your home, hire a licensed and reputable real estate agent.
- Talk with different real estate agents before deciding whom to hire.
- Research the sale prices of similar homes in your neighborhood and surrounding areas.
- Obtain comparisons from your real estate agent before agreeing to a listing price.
- Have your own attorney review any papers before you sign anything.