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# Don’t Be Fooled by Deceptive Mortgage Ads

The Federal Trade Commission announced Tuesday that it had found over 200 advertisers and media outlets in violation of the Truth in Lending Act because of their circulation of “potentially deceptive” mortgage ads. The ads were identified during an FTC nationwide review of “claims for very low monthly payment amounts or interest rates, without adequate disclosure of other important loan terms,” according to the FTC website.

“Many mortgage advertisers are making potentially deceptive claims about incredibly low rates and payments, without telling consumers the whole story – for example, that these low rates and payments apply for a short period only and can go up substantially after the loan’s introductory period,” said Lydia Parnes, the FTC’s Bureau of Consumer Protection director. “Home ownership is the American dream, but it can become a nightmare for consumers who don’t have the information they need to understand the terms of their mortgage.”

The FTC found ads that promised mortgage rates as low as 1 percent, but failed to state that the rate represented the payment rate and not the actual interest. Neither did the ads disclose that the rates only applied to an introductory period. Many of the ads also omitted information about payment increases and balloon payments, as well as the annual percentage rate (APR) of the loans.

While the companies responsible for the ads are being reprimanded and possibly prosecuted, the responsibility for understanding mortgage terms still lies with the consumer. Here are some basics to help you avoid being conned into a dangerous loan:

If a company offers you a really low rate, it usually means that it is an introductory rate on an adjustable rate mortgage (ARM.) This means that low interest rate will apply for a period of one to ten years, after which the rate will be allowed to adjust according to market indexes. You will likely end up paying a much higher rate somewhere down the road. Make sure you find out how high your rate and payments would be allowed to grow.Some loans with really low rates include balloon payments at the end of the mortgage. You might make low payments for 10 or 15 years, after which the entire remaining loan balance would be due. You would then be required to either fork over tens to hundreds of thousands of dollars, or refinance into a new loan. Ask your lender specifically if a balloon payment is part of the loan you are applying for. When shopping around for the best mortgage, obtain the APR from each lender and compare it with others. This is the rate that takes into account not only the interest rate, but also any points required and closing costs. It gives you a more accurate picture of the cost of a loan. The interest rate can be misleading, but the APR will tell you what you need to know.Report any shady business to the FTC. If you find ads that fail to disclose any of this information, help prevent the companies from deceiving others by informing the FTC by phone, mail, or email.