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Avoiding Equity Stripping Scams with a Home Equity Mortgage

During the recent housing boom, rapidly rising home values and low interest rates made home equity mortgages a very popular loan choice. Even as the housing market starts to cool off, many homeowners are still taking advantage of their home equity for projects like home improvement or debt consolidation. If you are venturing into a home equity loan, be careful to avoid one of the most prevalent mortgage scams today, "equity stripping."

Home equity is the percent of a home's value that the homeowner actually owns. To calculate your equity, subtract the balance of your home mortgage loan from the total value of the property. For example if your house is now worth \$250,000, and the balance of your loan is \$220,000, you have \$30,000 worth of equity. You can take advantage of that equity by getting a cash-out refinance or by obtaining a home equity mortgage. Just be careful that your lender does not take advantage of you by trying to fool you into an equity stripping scam.

Equity stripping occurs when a mortgage lender tries to get you to apply for an equity loan that taps into the maximum amount of equity possible, especially if you do not want such a large second home loan. Shady lenders that try to persuade you into borrowing against your total equity may go so far as to falsify your income and asset documents in order to qualify you for the biggest loan possible. The lender does not want to make sure you can actually afford such a large loan; in fact, he really wants to make sure you can't afford it. Then once you have gotten into a hefty second home loan, and are unable to make the large payments, you will be forced into foreclosure. Since this is the second mortgage on your home, the first will be paid off by the sale of your home by the first mortgage lender, and the disreputable lender will make money by getting the balance of your home equity.

There are several things you can do to avoid getting scammed by one of these mortgage lenders. First, you should realize that con artists like to prey on the elderly particularly, as well as those with low incomes or bad credit. Those in these categories will be the least likely to be able to make payments on a large home equity loan, and are thus the best candidates for the fraud.

You should also be wary of mortgage lenders that take the first step in contacting you, whether it is by phone or at your door. This may mean they have targeted you as a potentially gullible customer. When shopping for a home equity mortgage, shop around and select your own mortgage company.

Also, if you ever feel like a lender is trying to pressure you into loan amount or loan terms you do not want, walk away and try a different lender. When you do finally find a lender you like, be sure to do some background checks on her. Contact the Better Business Bureau for reports and statistics about the lender's lending practices. This will help give you peace of mind about the intentions of your lender and help you avoid a home equity mortgage scam.