Equity Skimming Scams

Common variety scams

1. Possibly unnecessary refinance – consumer is induced to refinance and "use the cash" for some purpose

The incentive on the part of the broker/lender is to earn the fees and costs associated with the transaction. Typically aggressive lenders/brokers seek out parties with less than perfect credit and use the poor credit status to obtain higher interest rates and to assess larger loan origination fees and closing costs.

The author recalls one example where the disabled individual was induced to refinance a 7% mortgage with a balance of less than $40,000.00 to a new loan over $100,000.00. The loan had an adjustable rate, which at last adjustment was in excess of 12%, and the loan origination fee was nearly 4%. .

A review of the subprime market and broker activities by one major lender led to the conclusion that the a good deal of the fraud was the result of "financially uneducated borrowers dealing with sophisticated unscrupulous brokers." [i]

2. Home repair/contractor – sometimes contractor is working with home equity lender

The consumer is approached by the contractor, possibly induced to hire the contractor to perform some sort of upgrade to the residence, such as new siding or new windows, or else the consumer believes some sort of major repair is needed (which may or not be true) such as a new furnace or roof. The homeowner tells the contractor that he or she does not have the money to pay for such a project and the contractor offers to help the homeowner obtain the financing through a home equity loan. There is often a relationship between the lender and the contractor.

3. Family/friend/caretaker – someone else will benefit from the funds, other than the homeowner

Consumer may or may not be a willing participant to this refinance. Particularly for seniors, the scam may be perpetrated by an individual acting under a power of attorney or someone who convinces the senior to sign the documents placed in front of them without understanding the impact of them

4. Foreclosure Assistance/Rescue

Foreclosures are a matter of public record. When a home is scheduled for foreclosure sale, foreclosure assistance or foreclosure rescue firms will seek the homeowner out and offer to prevent the public sale. One variation on this theme includes the homeowners signing a deed transferring the property to the rescue firm, in exchange for an arrangement where the individual leases the property back. Many homeowners in this situation do not realize that they no longer own their residence until they fail to make a lease payment and find themselves being evicted. Another variation is for the foreclosure firm to loan money to the homeowner to stop the foreclosure sale, and the homeowner gives the firm a lien on the property to secure the loan. When the homeowner ends up in foreclosure again, the foreclosure firm uses their lien position to obtain the property in post sale redemption.

Who is the target?

Obviously, the target for these scams is a homeowner with equity in their property. Although no reliable data exists on the age of the homeowners who are targets of equity scams, it is generally believed that seniors are more likely targets, based on the likelihood of a senior to have more equity in their residence than a younger person. [ii] In addition to the elderly, those individuals who do not have access to main stream credit, including minority populations are targeted. [iii]

---

[i] Fraud Prevention and Detection, William S. Smith, Option One Mortgage, MBA Non-Prime Lending Conference, June 12, 2005

[ii] CONSUMER PROTECTION Federal and State Agencies Face Challenges in Combating Predatory Lender, GAO, January, 2004

[iii] The Double Dirty Dozen Predatory Mortgage Lending Practices, William Brennan and Patricia Sturdevant, National Association of Consumer Advocates