



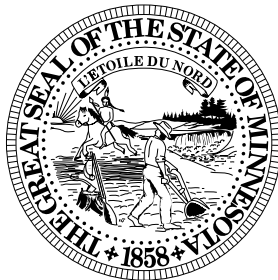
Home Equity Stripping

From the Office of Minnesota Attorney General Lori Swanson

Home foreclosure is every homeowner's worst nightmare. One result of the poor economy is that many people are having a hard time making mortgage payments, and the number of foreclosures is growing. Unfortunately, there are people looking to take advantage of homeowners forced into foreclosure.

Because of the rise in home prices, many people in foreclosure still have significant equity in their home. Equity is the difference between what you owe on the home and the amount you can get from selling the home. For example, a homeowner with a house worth \$150,000 who owes \$80,000 on a first mortgage and \$20,000 on a home equity line has about \$50,000 in equity—which is the \$150,000 home value minus the \$100,000 in loans.

Foreclosed homeowners with equity need to watch out for scam artists who try to take all the equity from the homeowner. This is known as “equity stripping.” The scam works in a variety of ways, but it usually starts when someone promises the homeowners that he will solve all their problems and keep them in their home. The scammer promises loan money that never appears, or has the homeowners sign a lot of complicated papers. The end result often is that the homeowners end up owing more per month than before the foreclosure and are quickly forced out of the house. In most cases, the homeowners receive little or nothing for their home equity.



On April 28, 2003, the Attorney General's Office filed a lawsuit claiming that Home Funding Corporation (“HFC”) and other defendants “stripped” the equity from many Minnesota homeowners in foreclosure. The lawsuit states that HFC ran newspaper advertisements offering help, including loans, to homeowners in foreclosure. HFC, however, never really gave anyone a loan. Instead, homeowners were led to believe that they would get new financing, but actually were turned into renters and all of their home equity was drained by HFC or others.

Homeowners in foreclosure who still have equity in their home usually have two options: (1) sell the home and take cash for the equity; or (2) get new financing to solve the foreclosure. The best choice will depend on each homeowner's circumstances. Some things that will be important to consider are the following: the amount of equity in the home; the homeowner's income, other debts and credit history; the type of mortgage loans or other claims against the house; and the homeowner's age and other housing options.

If you or someone you know is in foreclosure, or are behind in mortgage payments and facing possible foreclosure, take the following actions:

■ **Call a reputable mortgage foreclosure counselor.** There are many non-profit and government agencies who can help advise homeowners in foreclosure or behind in loan payments. In most cases, the help is free or at an affordable cost. Contact the following agencies for a referral to a mortgage foreclosure specialist:

- Home Ownership Center
www.hocmn.org
(651) 659-9336 or (866) 462-6466 (toll free)
- HUD Housing Counseling
www.hud.gov/offices/hsg/sfh/hcc/hcs.cfm
(800) 569-4287 (toll free)
- Minnesota Housing Finance Agency
www.mhfa.state.mn.us
(651) 296-7608 or (800) 657-3769 (toll free)

- **Don't Wait!** Homeowners in foreclosure can be feeling ashamed and overwhelmed. That's understandable. But don't let it stop you from asking for help as soon as possible. The longer you wait to get help, the harder it can be to find good solutions.
- **Be Careful.** Scam artists often seem like white knights to distressed homeowners in foreclosure. They promise to "keep you in your home," tell you they will take care of everything and that you shouldn't worry. Don't rely on spoken promises. Ask for everything in writing. When you get it on paper, take it to an attorney, loan counselor or someone you trust to look it over and make sure the deal is the same as the promises.

Contact the Attorney General's Office if you think you were a victim of equity stripping by phone, mail or electronically as follows:

Office of Minnesota Attorney General

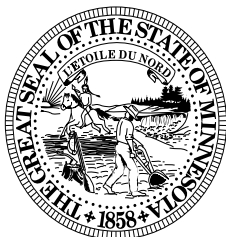
Lori Swanson

1400 Bremer Tower
 445 Minnesota Street
 St. Paul, MN 55101
 651-296-3353
 1-800-657-3787
 TTY: 651-297-7206
 TTY: 1-800-366-4812
www.ag.state.mn.us

You should also contact the Minnesota Department of Commerce as follows:

Minnesota Department of Commerce

85 7th Place East, Suite 500
 St. Paul, MN 55101
 651-296-2488
 1-800-657-3602
www.commerce.state.mn.us



Foreclosure Facts

The following statistics were cited in separate reports issued in June, 2003 from the Annie E. Casey Foundation and the Mortgage Bankers of America:

- The costs of predatory lending practices, including equity stripping, to American consumers top \$9 billion a year.
- According to the Mortgage Bankers Association, in the 3 months that ended in March 2003, the percentage of home mortgages in foreclosure rose to a record of 404,400 out of 33.7 million mortgaged homes. The number is the highest rate in the 30 years that the association has been monitoring mortgages.
- On average, consumers with subprime mortgages were eight times more likely to lose their home in default than those with prime, conventional mortgages. For those who do not lose their homes to default, there are still very high costs in the form of hefty fees, penalties and inflated interest rates.
- The Fannie Mae Foundation estimates that the total annual cost of fees paid from high-cost financial service-industries to be more than \$5.45 billion.
- According to ACORN Minnesota, predatory lending affects more than 10,000 Minnesota homeowners annually and costs more than \$83 million in home equity, interest payments and mortgage insurance.