



# Beware of Refinancing Scams

From the Office of Minnesota Attorney General Lori Swanson

Some homeowners look to refinancing to get out of adjustable-rate mortgages or lower the rate on their fixed-rate mortgages to help ease financial pressures. When interest rates drop, refinancing can become an attractive option, and the number of mortgage refinancing applications soars.

Some homeowners have become the target of fraudulent refinancing offers. Such fraudulent refinancing offers may begin with a call from an “under-writer,” who may refer to the homeowner’s good payment record, good credit, or current mortgage rate to confuse the homeowner into believing that the call is from the homeowner’s current mortgage lender. The caller may offer the homeowner a refinancing offer that is hard to pass up, such as a lower interest rate, no closing costs, guaranteed approval, no required appraisal, and a speedy closing. Since people may believe that their current mortgage lender is offering the deal, they do not question the offer. After the caller convinces the homeowner to refinance, the homeowner is asked to pay a fee to proceed with the refinancing, which can be as high as two mortgage payments. Once the homeowner provides payment for the refinancing, nothing happens on the homeowner’s refinancing file and the homeowner is out thousands of dollars while never closing on the offered refinance. These types of scams are hard to detect because the refinancing process can be confusing, and terms, fees and conditions of a refinance can vary from person to person. To avoid refinancing traps, the Attorney General’s Office offers the following tips:

- If you believe the refinancing offer is being made by your current lender, confirm this before proceeding with the transaction, especially if you are relying on the caller’s affiliation with your current lender as a basis to agree to refinance. Fraudsters may make statements about your credit history, payment history or current interest rate to mislead you into believing that they are affiliated with your current bank.
- Ask to see everything in writing before you agree to the refinancing terms. You are entitled to certain disclosures about your refinancing, including a good faith estimate, which outlines the fees associated with the refinance, and truth-in-lending statement, which spells out the APR (annual percentage rate), representing the total cost of the loan for a year. While the good faith estimate and truth-in-lending statement provide the borrower with the information needed to determine the cost of the mortgage, they do not prevent the borrower from being overcharged. You should shop around to make sure you are getting the best loan.
- Beware of excessive fees. Because refinancing fees can be rolled into the loan, they are easy to disguise, and unscrupulous lenders may offer you a great rate and no “out-of-pocket” expenses, while charging excessive fees that are financed through the loan. Fees are oftentimes based on your credit and financial profile, and can vary from person to person.
- Don’t feel pressured into locking in right away, especially if you are unfamiliar with the company. It is tempting to lock in immediately when offered a great rate with great terms, but rates may go up or down, and taking a day or two to consider the offer or research the company should not alter the refinance offer too drastically.
- When someone tells you that you are “pre-approved,” it may not mean the refinancing is guaranteed. You may still have to go through the underwriting process for loan approval, including filling out the loan application, undergoing credit checks, income verification, and an appraisal. Make sure you clarify what the caller means by being “approved” for the loan, especially if you are agreeing to the refinance based on being approved. You may still be denied later despite your “pre-approval.”

- Don't agree to or sign anything that is contrary to what you were promised. Many consumers find themselves agreeing to an arrangement in writing or in a recording that is different from the offer given to them. It is difficult to dispute an unauthorized charge if there is a contract or recording that shows you agreed to the arrangement.

If you believe you are the victim of a refinancing scam, file a complaint:

**Office of Minnesota Attorney General**

**Lori Swanson**

445 Minnesota Street, Suite 1400

St. Paul, MN 55101

651-296-3353 or 800-657-3787

TTY: 651-297-7206 or 800-366-4812

*www.ag.state.mn.us*

**Minnesota Department of Commerce**

Market Assurance Division

85 East Seventh Place, Suite 500

St. Paul, MN 55101

651-539-1500

*www.commerce.state.mn.us*

