



Beware of Refinancing Scams

From the Office of Minnesota Attorney General Keith Ellison

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. Refinancing can become an attractive option when interest rates drop. But be careful. Some homeowners have become the target of fraudulent refinancing offers.

The fraudulent 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, the “under-writer” does nothing and the homeowner is out thousands of dollars.

These scams are hard to detect because the refinancing process can be confusing and vary from person to person. To avoid refinancing traps, the Attorney General’s Office offers the following tips:

- **Confirm the identity of the refinancer.** If you suspect that your current lender is making the offer make sure to 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 receive a Truth-in-Lending Disclosure, which explains the cost of the refinancing, including the APR (annual percentage rate) and any fees. But be careful. The statement does not prevent the borrower from being overcharged. You should shop around to make sure you are getting the best loan.
- **Look for excessive fees.** Refinancing fees can be rolled into the loan and are easy to disguise. 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 often based on your credit and financial profile and can vary from person to person.
- **Don’t feel pressured into accepting right away.** It is tempting to lock in immediately when offered a great rate with great terms, but rates may go up or down. Taking a day or two to consider the offer or research the company should not alter the refinance offer too drastically.
- **Be wary of “pre-approval.”** 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
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mn.gov/commerce/consumers/file-a-complaint

