

5.2: Mortgages

Learn some of the basics about mortgages.

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Mortgage Refinancing

Refinancing refers to satisfying a debt by making another loan on new terms. The most common consumer refinancing is for a home mortgage, which generally involves paying off your existing mortgage and taking out a new mortgage.

The following resources provide further information:

- [A Consumer's Guide to Mortgage Refinancings](#)
- [Buying Your Home: Settlement Costs Booklet](#) (PDF, [Download Adobe Reader](#))
- [Interest Rate Reduction Refinancing Loans \(IRRRL\)](#) – For Veterans

Making Home Affordable Program

The Making Home Affordable Program offers opportunities to modify or refinance your mortgage to make your monthly payments more affordable. It also includes the Home Affordable Foreclosure Alternatives Program for homeowners who are interested in a short sale or deed-in-lieu of foreclosure. Call 1-888-995-4673 for more information.

Please note: New Federal Reserve rules require mortgage companies to notify homeowners when their loans are transferred to another company. The company that takes over your loan must send you a notice within 30 days of acquiring it. Even with a new loan owner, the company that “services” or handles your loan might not change and you might continue to send your payments to the same address. If that loan servicer changes, you will receive a separate notice.

For more information about servicing companies, read the Federal Trade Commission’s publication “Mortgage Servicing: Making Sure Your Payments Count.”

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Predatory Loans

Most mortgage professionals are trustworthy and provide a valuable service, helping you to buy or refinance your home. But dishonest or “predatory” lenders do exist and engage in practices that increase the chances of borrowers losing their homes to foreclosure. To avoid becoming a victim of predatory lending, you need to understand the process to buy a home and be a smart consumer.

What Is Predatory Lending?

Predatory lenders, appraisers, mortgage brokers and home improvement contractors could use any of these tactics to take away your home or investments:

- Sell properties for much more than they are worth using false appraisals
- Encourage borrowers to lie about their income, expenses, or cash available for down payments in order to get a loan
- Knowingly lend more money than a borrower can afford to repay
- Charge high interest rates to borrowers based on their race or national origin and not on their credit history
- Charge fees for unnecessary or nonexistent products and services

Avoid Predatory Loans by Being a Smart Consumer

Follow these guidelines to avoid becoming a victim of predatory lending:

- Before you buy a home, attend a homeownership education course offered by a U.S. Department of Housing and Urban Development (HUD)-approved, non-profit counseling agency.
- Interview several real estate professionals (agents), and ask for and check references before you select one to help you buy or sell a home.

- Get information about the prices of other homes in the neighborhood. Don't be fooled into paying too much.
- Hire a qualified and licensed home inspector to carefully inspect the property before you are obligated to buy. Determine whether you or the seller will be responsible for paying for the repairs.
- Shop for a lender and compare costs. Be suspicious if anyone tries to steer you to just one lender.

The HUD Office of Housing Counseling has a list of [federal, state, and local resources](#) to protect you from predatory lending.

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Reverse Mortgages

A reverse mortgage is a home loan that you do not have to pay back for as long as you live in your home. You only repay the loan when you die, sell your home, or permanently move away. Homeowners who are at least 62 years old are eligible. These mortgages allow older homeowners to convert part of the equity in their homes into cash without having to sell their homes or take on additional monthly bills.

Read more [information about reverse mortgages](#).

Types of reverse mortgages include:

- Federally insured Reverse Mortgages – Known as [Home Equity Conversion Mortgages \(HECM\)](#)
- Proprietary Reverse Mortgages
- Single Purpose Reverse Mortgages

Be sure to watch for aggressive lending practices, advertisements that refer to the loan as “free money,” or those that fail to disclose fees or terms of the loan. To be a savvy consumer and help protect yourself, remember:

- Do not respond to unsolicited advertisements
- Be suspicious of anyone claiming that you can own a home with no down payment
- Seek out your own reverse mortgage counselor
- Never sign anything you do not fully understand
- Make sure the loan is federally insured

Reporting Fraud or Abuse

If you suspect fraud or abuse, let the counselor, lender, or loan servicer know. You may also file a complaint:

- [Federal Trade Commission \(FTC\)](#)
- [State Attorney General's office](#)
- [State banking authority](#)

If you have questions, contact [your local Homeownership Center](#) for advice.

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