



Buying a house is part of the American dream. Many first-time homebuyers are so eager to fulfill that dream that they leap into the housing market ready to take the first good deal that comes their way. But the housing market is full of 'good deals' that are really traps to catch the unwary and take their money. This brochure will help you recognize and avoid these traps so that your new home doesn't turn out to be more - or less - than you expected.

Three Keys to Your Dream House

It takes more than a down payment and a job to buy a house the right way. Without good income, excellent credit, and a large down payment you cannot easily qualify for a mortgage loan from a bank or other conventional lender - which means you should probably wait before buying a house. While there are some legitimate options for non-qualifying homebuyers, there are also a lot of scam artists hunting for big down payments who will attempt to lure you into a home purchase trap.

It is preferable to save your money, establish your credit and qualify for a legitimate mortgage loan rather than dive in before you're ready.

What to Avoid

Some dishonest investors pretend to sell houses rather than renting or legitimately selling **them**. By overpricing the house and setting the monthly payments just beyond the buyer's ability to pay, the seller ensures that the buyer will default, lose the house and forfeit the down payment.

These sellers typically use one of three methods to accomplish their goal: lease with an option to purchase, contract for deed or wrap-around mortgage. While these were legitimate sales methods in the past, they have become the tools scam artists use to separate unwary homebuyers from their money.

The lease with an option to purchase is the most common home purchase scam. Suppose you want to buy a house but cannot qualify for a mortgage loan. The seller makes you a deal: pay the down payment up front, rent the house for a specified time (usually a year) and in the meantime find financing to purchase the house. Usually the rent is overpriced but you're willing to pay because you think you'll own the house in a year. When the time comes to exercise your option to purchase the house and you still can't qualify for a mortgage loan, the seller evicts you, keeps the house, keeps your down payment and goes looking for another over-eager, under-cautious homebuyer.

The contract for deed or land contract is essentially a rent-to-own agreement for a house. The seller provides financing and you think you own the house subject to the mortgage loan. But the contract says that the seller won't transfer the title until the last payment is made - 20 years later! If you miss even a single payment, the transaction becomes a lease agreement. The seller then evicts you for non-payment of rent and keeps the house, the down payment and all the equity you worked to accumulate.

The seller-financed wraparound mortgage is possibly the most complex home purchase scam. Again, suppose you cannot qualify for a conventional mortgage loan. The seller offers to finance a new mortgage which 'wraps' around the previous mortgage. You make monthly payments to the seller, who in turn makes payments on the original mortgage and keeps the rest. (You run the risk of foreclosure if the seller

does not make the payments on the original mortgage.) The seller overprices the house and sets the monthly payments just below your income, guaranteeing that you will miss a payment. Then the seller forecloses, buys the house at the foreclosure sale, evicts you, keeps the down payment and goes in search of another victim to churn through the house.

All homebuyers should beware of home-builder fraud regardless of whether they qualify for a conventional mortgage loan. Some housing developers increase profits by cutting corners when building houses or entire subdivisions. Then they sell the defective properties to unsuspecting homebuyers. Once the house is bought, it is often very difficult to make the developer or the warranty insurance company perform necessary repairs. The homebuyer gets stuck with the bill and a house worth much less than the sale price.

Protect Yourself

Without appropriate precautions your dream home could turn into a nightmare. Take the following steps to make sure you don't sign onto a bad deal.

Visit your local nonprofit housing counseling center to set up an appointment with a counselor to evaluate your options and enroll in a free homebuyer's workshop.

Have an expert (a lawyer or a housing counselor) examine the purchase agreement and all other documents before you sign anything.

Hire an independent inspector to make sure the house is in good condition whether the house is new or previously owned.

First Step

Your first step should be to apply for a purchase mortgage loan with a conventional lender before you begin house hunting. If you do not qualify, your housing counselor can advise you on legitimate alternatives to conventional mortgage loans. One of these alternatives, the Neighborhood Assistance Corporation of America (NACA), is a nonprofit organization that assists qualified low-and moderate-income home-buyers in obtaining low interest purchase mortgage loans.

If you still don't qualify for a legitimate mortgage, find out what the lender's underwriting standards are and what steps you should take to meet them. You'll be better off in the long run if you work to qualify with a legitimate lender than if you take a risk on a 'good deal' and end up caught in a home purchase trap.

Call for Help and Advice

DeKalb Metro Housing Counseling Center
(404) 508-0922

Cooperative Resource Center
(404) 521-9092

Neighborhood Assistance Corporation of America (NACA)
(404) 377-4545

If you or someone you know has already become the victim of a housing scam, call a private lawyer or Atlanta Legal Aid Society immediately.

Contact Us

DeKalb County
246 Sycamore Street
Suite 120
Decatur, GA 30030
(404) 377-0701

Clayton County Pro Bono Project
1000 Main Street
Forest Park, GA 30050
(404) 366-0586

Cobb County
30 S. Park Square
Marietta, GA 30090
(770) 528-2565

Fulton County
151 Spring Street, N.W.
Atlanta, GA 30303
(404) 524-5811

South Fulton &
Clayton Counties
1514 East Cleveland Avenue
Suite 100
East Point, GA 30344
(404) 669-0233
(Wagon Works Building)

Gwinnett County
180 Camden Hill Road
Suite A
Lawrenceville, GA 30045
(678)376-4545

For TTD/TTY users, call the Georgia Relay Center at (800) 255-0135.



Home Purchase Fraud

Atlanta Legal Aid Society, Inc