

Student Take Home Guide

# *Personal Finance*

Consumer Awareness



## **Personal Financial Education**

### Consumer Awareness

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# Using Ads to Shop for Home Financing

For many homebuyers, shopping to find the best home financing is as important as shopping to find the right house. After all, a small difference in the mortgage rate can make a big difference in monthly payments.

Many consumers learn about available credit terms for new homes from newspaper advertisements. But consumers may not know what to look for when they compare credit terms in home advertisements.

Here are answers to some questions you may have about home credit advertising.

## **What terms must a home financing ad contain?**

There is no federal requirement that ads for homes provide information about credit terms. But the Federal Truth in Lending Act requires that if an ad includes certain credit terms, such as the amount or percentage of the down payment (in a credit sale), the amount of the monthly payment, the length of the loan, or the amount of the finance charge, it also must include all of the following information:

- \* the amount or the percentage of the down payment (in a credit sale)
- \* the terms of repayment (i.e., the amount of the monthly payment and the length of the mortgage)
- \* the rate of finance charge, expressed as the "annual percentage rate." (See next section for definition.)

If an ad includes any interest rate, such as the simple interest rate or rates that apply for a limited period of time, the law requires that the annual percentage rate also be advertised. If an ad says "10% financing," "the equivalent of 6%," or simply "8%," the advertised rate is probably not the annual percentage rate. The actual cost of the credit is likely to be higher. Therefore, you should ask for the annual percentage rate and compare terms.

## **What is the difference between the annual percentage rate and other interest rates?**

The annual percentage rate (APR) includes all the costs of credit; other interest rates do not. For example, the "simple" interest rate is the one usually shown on the mortgage document. It does not reflect additional costs to cover such items as "points" (fees charged when the mortgage is closed) or mortgage insurance. If an ad does not include the APR, it does not tell you everything you need to know about the cost of credit.

For example, suppose you had to choose between a 9 percent simple interest rate and a 9 percent APR on a 30-year loan. Also suppose the house cost \$110,000 and you made a \$10,000 down payment, leaving \$100,000 to be financed. Because of the small down payment, many lenders would require you to buy mortgage insurance, often costing one half of one percent of the loan balance. With a 9 percent simple interest rate, the extra cost for the mortgage insurance, and other loan origination fees, your monthly payments might be as high as \$841. But with a 9 percent APR, which includes the cost of mortgage insurance and other loan origination fees, your monthly payments should not exceed \$805. The difference between these two rates could be \$36 a month and thousands of dollars over the loan.

### **What should I look for in ads that offer "creative financing?"**

Creative financing plans typically include lower payments in the earlier years of the financing plan, interest rates that can change during the entire term of the loan, or some combination of these features. Look for the following information in the ad, or ask the lender these questions:

*\* Will the interest rate or the monthly payments change during the term of the loan?* In some loans, a below-market rate and lower payments apply only for the first few years, but higher rates and payments follow for the remainder of the loan term.

*\* How will the new interest rate or the monthly payments be calculated?* The increased rate and payments are stated in advance in some mortgages. In others, they are tied to certain indexes and depend on future market conditions. In these loans, the amount and frequency of the changes in your interest rate and payments also depends on the terms of your loan agreement.

*\* Will the advertised monthly payments be large enough to pay off the mortgage?* Some mortgage plans offer low monthly payments even though the interest rate is fairly high. If these monthly costs are not enough to repay the loan amount and the interest charges, the difference may be added to the principal. In some plans, you could owe more at the end of the mortgage term than at the beginning.

*\* Will you have to refinance the mortgage after a few years?* If a large or "balloon" payment is due after a few years and you do not have the necessary cash, you may have to refinance the mortgage. If you do refinance and interest rates have risen, you may have to make much higher monthly payments than you had planned.

### **How can I tell if the advertised credit includes monthly payments or interest rates that will change?**

Phrases such as "effective rate," "adjustable rate," or "flexible payments" indicate that the credit terms may change. If you see any of these phrases in an ad, find out more about the

credit terms. For example, if an ad offers a "7% effective rate," look for other information, such as the APR, to tell you the full cost of credit.

### **Where can I get more information about home financing?**

While credit advertising can help you compare financing plans, it is important to get more detailed information before deciding on a mortgage, especially if creative financing plans are involved. It may be worthwhile to consult a professional, such as an attorney, accountant, or credit union for help in understanding various home mortgage plans.

If you believe that you've been victimized, file a complaint with the FTC by contacting the Consumer Response Center by phone: toll-free 1-877-FTC-HELP (382-4357); TDD: 202-326-2502; by mail: Consumer Response Center, Federal Trade Commission, 600 Pennsylvania Ave, NW, Washington, DC 20580. Although the Commission cannot resolve individual problems for consumers, it can act against a company if it sees a pattern of possible law violations.

# Advertisements Promising Debt Relief May Be Offering Bankruptcy

Debt got you down? You're not alone. Consumer debt is at an all-time high. What's more, record numbers of consumers are filing for bankruptcy. Whether your debt dilemma is the result of an illness, unemployment, or simply overspending, it can seem overwhelming. In your effort to get solvent, be on the alert for advertisements that offer seemingly quick fixes. While the ads pitch the promise of debt relief, they rarely say relief may be spelled b-a-n-k-r-u-p-t-c-y. And although bankruptcy is one option to deal with financial problems, it's generally considered the option of last resort. The reason: its long-term negative impact on your creditworthiness. A bankruptcy stays on your credit report for up to 10 years and can hinder your ability to get credit, a job, insurance, or even a place to live.

The Federal Trade Commission (FTC) cautions consumers to read between the lines when faced with ads in newspapers, magazines or even telephone directories that say:

*"Consolidate your bills into one monthly payment without borrowing."*

*"STOP credit harassment, foreclosures, repossessions,  
tax levies and garnishments," "Keep Your Property."*

*"Wipe out your debts! Consolidate your bills! How? By using the protection and  
assistance provided by federal law. For once, let the law work for you!!"*

You'll find out later that such phrases often involve bankruptcy proceedings, which can hurt your credit and cost you attorney fees. If you're having trouble paying your bills, consider these possibilities before considering filing for bankruptcy:

**Talk with your creditors.** They may be willing to work out a modified payment plan.

**Contact a financial counseling service like *Accel*.** These organizations work with you and your creditors to develop debt repayment plans. Such plans require you to deposit money each month with the counseling service. The service then pays your creditors.

**Carefully consider a second mortgage or home equity line of credit.** While these loans may allow you to consolidate your debt, they also require your home as collateral.

If none of these options are possible, bankruptcy may be the likely alternative. There are two primary types of personal bankruptcy: Chapter 13 and Chapter 7. Each must be filed in federal bankruptcy court. Attorney fees are additional and can vary widely. The consequences of bankruptcy are significant and require careful consideration.

**Chapter 13** allows you, if you have a regular income and limited debt, to keep property, such as a mortgaged house or car that you otherwise might lose. In Chapter 13, the court approves a repayment plan that allows you to pay off a default during a period of three to five years, rather than surrender any property.

**Chapter 7**, known as straight bankruptcy, involves liquidating all assets that are not exempt. Exempt property may include cars, work-related tools and basic household furnishings. Some property may be sold by a court-appointed official (a trustee) or turned over to creditors. You can receive a discharge of your debts under Chapter 7 once every six years.

Both types of bankruptcy may get rid of unsecured debts and stop foreclosures, repossessions, garnishments, utility shut-offs, and debt collection activities. Both also provide exemptions that allow you to keep certain assets, although exemption amounts vary. Personal bankruptcy usually does not erase child support, alimony, fines, taxes, and some student loan obligations. Also, unless you have an acceptable plan to catch up on your debt under Chapter 13, bankruptcy usually does not allow you to keep property when your creditor has an unpaid mortgage or lien on it.

# Automatic Debit Scams

Fraudulent telemarketers have found yet another way to steal your money, this time from your checking account. Consumers across the country are complaining about unauthorized debits (withdrawals) from their checking accounts.

Automatic debiting of your checking account can be a legitimate payment method; many people pay mortgages or make car payments this way. But, the system is being abused by fraudulent telemarketers. Therefore, if a caller asks for your checking account number or other information printed on your check, you should follow the same warning that applies to your credit card number -- **do not give out checking account information over the phone unless you are familiar with the company and agree to pay for something.** Remember, if you give your checking account number over the phone to a stranger for "verification" or "computer purposes," that person could use it to improperly take money from your checking account.

## How The Scam Works

You either get a postcard or a telephone call saying you have won a free prize or can qualify for a major credit card, regardless of past credit problems. If you respond to the offer, the telemarketer often asks you right away, "Do you have a checking account?" If you say "yes," the telemarketer then goes on to explain the offer. Often it sounds too good to pass up.

Near the end of the sales pitch, the telemarketer may ask you to get one of your checks and to read off all of the numbers at the bottom. Some deceptive telemarketers may not tell you why this information is needed. Other deceptive telemarketers may tell you the account information will help ensure that you qualify for the offer. And, in some cases, the legitimate telemarketer will honestly explain that this information will allow them to debit your checking account.

Once a telemarketer has your checking account information, it is put on a "demand draft," which is processed much like a check. The draft has your name, account number, and states an amount. Unlike a check, however, the draft does not require your signature. When your bank receives the draft, it takes the amount on the draft from your checking account and pays the telemarketers' bank. You may not know that your bank has paid the draft until you receive your bank statement.

## What You Can Do To Protect Yourself

It can be difficult to detect an automatic debit scam before you suffer financial losses. If you **do not know to whom you are talking**, follow these suggestions to help you avoid becoming a victim:

- Don't give out your checking account number over the phone **unless** you know the company and understand why the information is necessary.
- If someone says they are taping your call, **ask why**. Don't be afraid to ask questions.
- Companies do **not** ask for your bank account information unless you have expressly agreed to this payment method.

IT'S THE LAW: Since December 31, 1995, a seller or telemarketer is required by law to obtain your **verifiable authorization** to obtain payment from your bank account. That means whoever takes your bank account information over the phone must have your express permission to debit your account, and must use one of three ways to get it. The person must tell you that money will be taken from your bank account. If you authorize payment of money from your bank account, they must then get your written authorization, tape record your authorization, or send you a written confirmation **before** debiting your bank account. If they tape record your authorization, they must disclose, and you must receive, the following information:

- The date of the demand draft
- The amount of the draft(s)
- The payor's (who will receive your money) name
- The number of draft payments (if more than one)
- A telephone number that you can call during normal business hours
- The date that you are giving your oral authorization

If a seller or telemarketer uses written confirmation to verify your authorization, they must give you all the information required for a tape recorded authorization **and** tell you in the confirmation notice the refund procedure you can use to dispute the accuracy of the confirmation and receive a refund.

### **What To Do If You Are A Victim**

If telemarketers cause money to be taken from your bank account without your knowledge or authorization, they have violated the law. If you receive a written confirmation notice that does not accurately represent your understanding of the sale, follow the refund procedures that should have been provided and request a refund of your money. If you do not receive a refund, it's against the law. If you believe you have been a victim of fraud, contact your bank immediately. Tell the bank that you did not okay the debit and that you want to prevent further debiting. You also should contact your state Attorney General. Depending on the timing and the circumstances, you may be able to get your money back.

# Avoiding Credit and Charge Card Fraud

*A thief goes through trash to find discarded receipts or carbons, and then uses your account numbers illegally.*

*A dishonest clerk makes an extra imprint from your credit or charge card and uses it to make personal charges.*

*You respond to a mailing asking you to call a long distance number for a free trip or bargain-priced travel package. You're told you must join a travel club first and you're asked for your account number so you can be billed. The catch: Charges you didn't make are added to your bill, and you never get your trip.*

Credit and charge card fraud costs cardholders and issuers hundreds of millions of dollars each year. While theft is the most obvious form of fraud, it can occur in other ways. For example, someone may use your card number without your knowledge.

It's not always possible to prevent credit or charge card fraud from happening. But there are a few steps you can take to make it more difficult for a crook to capture your card or card numbers and minimize the possibility.

## Guarding Against Fraud

Here are some tips to help protect you from credit and charge card fraud.

### Do:

- Sign your cards as soon as they arrive.
- Carry your cards separately from your wallet, in a zippered compartment, a business card holder, or another small pouch.
- Keep a record of your account numbers, their expiration dates, and the phone number and address of each company in a secure place.
- Keep an eye on your card during the transaction, and get it back as quickly as possible.
- Void incorrect receipts.
- Destroy carbons.
- Save receipts to compare with billing statements.
- Open bills promptly and reconcile accounts monthly, just as you would your checking account.
- Report any questionable charges promptly and in writing to the card issuer.
- Notify card companies in advance of a change in address.

**Don't:**

- Lend your card(s) to anyone.
- Leave cards or receipts lying around.
- Sign a blank receipt. When you sign a receipt, draw a line through any blank spaces above the total.
- Write your account number on a postcard or the outside of an envelope.
- Give out your account number over the phone unless you're making the call to a company you know is reputable. If you have questions about a company, check it out with your local consumer protection office or Better Business Bureau.

**Reporting Losses and Fraud**

If you lose your credit or charge cards or if you realize they've been lost or stolen, immediately call the issuer(s). Many companies have toll-free numbers and 24-hour service to deal with such emergencies. By law, once you report the loss or theft, you have no further responsibility for unauthorized charges. In any event, your maximum liability under federal law is \$50 per card.

If you suspect fraud, you may be asked to sign a statement under oath that you did not make the purchase(s) in question.

**For More Information**

You can file a complaint with the Federal Trade Commission (FTC) by contacting the Consumer Response Center by phone: toll free 1-877-FTC-HELP (382-4357); TDD: 202-326-2502; by mail: Consumer Response Center, Federal Trade Commission, 600 Pennsylvania Ave., NW, Washington, DC 20580; or through the Internet, using the online complaint form at [www.ftc.gov](http://www.ftc.gov). Although the FTC cannot resolve individual problems for consumers, it can act against a company if it sees a pattern of possible law violations.

## **Be a Smart Consumer - "Don't Get Taken"**

**D**o read the "fine print."

**O**btain knowledge before you buy. Read Consumer Reports.

**N**o verbal promises. Get it in writing.

**T**ake 24 hours to think before you buy.

**G**o over guaranties and warranties carefully - what's actually covered?

**E**xamine "free" offers. What's really involved to collect?

**T**alk terms of contract - comparison shop for best financing.

**T**ake a moment to compare the sales pitch with the facts.

**A**sk questions.

**K**now your budget before shopping.

**E**veryone is not honest. Do research for yourself.

**N**egotiate!

# Choosing A Credit Counselor

Living paycheck to paycheck? Worried about debt collectors? Can't seem to develop a workable budget let alone save money for retirement? If this sounds familiar, you may want to consider the services of a credit counseling agency. Usually nonprofit, these agencies work with you to solve your financial problems — sometimes for free. Credit counseling agencies may offer educational materials and workshops or help you develop a budget. Many agencies offer services nationwide through local offices or the Internet. Look under "credit counseling" in your telephone directory or your Internet search engine.

## Debt Repayment Plans

If your financial difficulties arise from too much debt or an inability to repay your debts, a credit counseling agency may work out a Debt Repayment Plan for you. In these plans, you deposit money each month with the credit counseling agency. Your deposits are used to pay your creditors according to a payment schedule the counselor develops with you.

As part of the repayment plan, you may have to agree not to apply for — or use — any additional credit while you're participating in the program. A successful repayment plan requires you to make regular, timely payments, and could take 48 months or longer to complete. Some credit counseling agencies charge little or nothing for managing the plan; others charge a monthly fee that could add up to a significant charge over time.

A debt repayment plan does not erase your credit history. Under the Fair Credit Reporting Act, accurate information about your accounts can stay on your credit report for up to seven years. A bankruptcy can stay on your report for ten years. In addition, your creditors will continue to report information about accounts that are handled through a debt repayment plan. For example, creditors may report that an account is in financial counseling, that payments have been missed, or that there are write-offs or other concessions. But a demonstrated pattern of timely payments should help you get credit in the future.

## Secured and Unsecured Debt

Your debts are either secured or unsecured. Secured debts usually are tied to an asset, like your car for a car loan, or your house for a mortgage. If you stop making payments, the lender can repossess your car or foreclose on your house. Unsecured debts are not tied to any asset. Examples include most credit card debt, bills for medical care, signature loans and debts for other types of services. Debt repayment plans usually cover only your unsecured debt. *Accel* counselors work with all types of debt. If your secured debts are not included in the plan, you must continue to make payments to these creditors directly.

When you borrow money to buy a car, the lender generally holds the title to the car until the debt is paid in full. Most automobile financing agreements allow the lender to repossess your car if you stop making payments. No notice is required. If your car is repossessed, you may have to pay the full balance due on the loan, as well as towing and storage costs, to get it back. If not, the lender may sell the car, perhaps for less than what you still owe. You still are responsible for the difference. If you fall behind with your car payments, consider working with the holder of the title of your car to sell it yourself. Pay off the debt to avoid repossession and a negative entry on your credit report.

If you fall behind on your mortgage, contact your lender immediately to avoid foreclosure. Most lenders will work with you if they believe you're acting in good faith and the situation is temporary. Some lenders may reduce or suspend your payments for a short time. When you resume regular payments, you may have to pay extra toward the past due total. Lenders may agree to change the terms of the mortgage by extending the repayment period to reduce the monthly payments. Ask about any fees charged for these changes, and consider how much they add to the total cost of your loan.

If you and your lender cannot work out a plan, contact a housing counseling agency. Some agencies limit their counseling services to homeowners with FHA mortgages, but many offer free help to any homeowner having trouble making mortgage payments. *Accel* counselors are HUD certified.

### **Choosing an Agency: Questions to Ask**

If you want to work with a credit counseling agency, interview several. Here are some questions to ask. Check with your state Attorney General, local consumer protection agency and the Better Business Bureau to find out if consumers have filed complaints about the provider you are considering. Any reputable credit counseling agency should send you free information about itself and the services it provides without requiring you to provide any details about your situation. If not, consider that a red flag and go elsewhere for help.

### **Services and Fees**

- What services do you offer?
- Do you have educational materials? If so, will you send them to me? Are they free? Can I access them on the Internet?
- In addition to helping me solve my immediate problem, will you help me develop a plan for avoiding problems in the future?
- What are your fees? Do I have to pay anything before you can help me? Are there monthly fees? What's the basis for the fees?
- What is the source of your funding?
- Will I have a formal written agreement or contract with you?
- How soon can you take my case?
- Who regulates, oversees and/or licenses your agency? Is your agency audited?
- Will I work with one counselor or several?

- What are the qualifications of your counselors? Are they accredited or certified? If not, how are they trained?
- What assurance do I have that information about me (including my address and phone number) will be kept confidential?

### **Repayment Plan**

- How much do I have to owe to use your services?
- How do you determine the amount of my payment? What happens if this is more than I can afford?
- How does your debt repayment plan work? How will I know my creditors have received payments? Is client money put in a separate account from operating funds?
- How often can I get status reports on my accounts? Can I get access to my accounts online or by phone?
- Can you get my creditors to lower or eliminate interest and finance charges or waive late fees?
- Is a debt repayment plan my only option?
- What if I can't maintain the agreed-upon plan?
- What debts will be excluded from the debt repayment plan?
- Will you help me plan for payment of these debts?
- Who will help me if I have problems with my accounts or creditors?
- How secure is the information I provide to you?

# Home Equity Scams – Borrowers Beware!

Do you own your home? If so, it's likely to be your greatest single asset. Unfortunately, if you agree to a loan that's based on the equity you have in your home, you may be putting your most valuable asset at risk.

Homeowners -- particularly elderly, minority and those with low incomes or poor credit - should be careful when borrowing money based on their home equity. Why? Certain abusive or exploitative lenders target these borrowers who unwittingly may be putting their home on the line.

Abusive lending practices range from equity stripping and loan flipping to hiding loan terms and packing a loan with extra charges. The Federal Trade Commission urges you to be aware of these loan practices to avoid losing your home.

## THE PRACTICES

### **Equity Stripping**

You need money. You don't have much income coming in each month. You have built up equity in your home. A lender tells you that you could get a loan even though you know your income is just not enough to keep up with the monthly payments. The lender encourages you to "pad" your income on your application form to help get the loan approved.

This lender may be out to steal the equity you have built up in your home. The lender doesn't care if you can't keep up with the monthly payments. As soon as you don't, the lender will foreclose - taking your home and stripping you of the equity you have spent years building. If you take out a loan but don't have enough income to make the monthly payments, you are being set up. You probably will lose your home.

### **Hidden Loan Terms: The Balloon Payment**

You've fallen behind in your mortgage payments and may face foreclosure. Another lender offers to save you from foreclosure by refinancing your mortgage and lowering your monthly payments. Look carefully at the loan terms. The payments may be lower because the lender is offering a loan on which you repay only the interest each month. At the end of the loan term, the principal-that is, the entire amount that you borrowed-is due in one lump sum called a balloon payment. If you can't make the balloon payment or refinance, you face foreclosure and the loss of your home.

## **Loan Flipping**

Suppose you've had your mortgage for years. The interest rate is low and the monthly payments fit nicely into your budget, but you could use some extra money. A lender calls to talk about refinancing, and using the availability of extra cash as bait, claims it's time the equity in your home started "working" for you. You agree to refinance your loan. After you've made a few payments on the loan, the lender calls to offer you a bigger loan for, say, a vacation. If you accept the offer, the lender refinances your original loan and then lends you additional money. In this practice-often called "flipping"-the lender charges you high points and fees each time you refinance, and may increase your interest rate as well. If the loan has a prepayment penalty, you will have to pay that penalty each time you take out a new loan.

You now have some extra money and a lot more debt, stretched out over a longer time. The extra cash you receive may be less than the additional costs and fees you were charged for the refinancing. And what's worse, you are now paying interest on those extra fees charged in each refinancing. Long story short? With each refinancing, you've increased your debt and probably are paying a very high price for some extra cash. After a while, if you get in over your head and can't pay, you could lose your home.

## **The "Home Improvement" Loan**

A contractor calls or knocks on your door and offers to install a new roof or remodel your kitchen at a price that sounds reasonable. You tell him you're interested, but can't afford it. He tells you it's no problem - he can arrange financing through a lender he knows. You agree to the project, and the contractor begins work. At some point after the contractor begins, you are asked to sign a lot of papers. The papers may be blank or the lender may rush you to sign before you have time to read what you've been given. The contractor threatens to leave the work on your house unfinished if you don't sign. You sign the papers. Only later, you realize that the papers you signed are a home equity loan. The interest rate, points and fees seem very high. To make matters worse, the work on your home isn't done right or hasn't been completed, and the contractor, who may have been paid by the lender, has little interest in completing the work to your satisfaction.

## **Credit Insurance Packing**

You've just agreed to a mortgage on terms you think you can afford. At closing, the lender gives you papers to sign that include charges for credit insurance or other "benefits" that you did not ask for and do not want. The lender hopes you don't notice this, and that you just sign the loan papers where you are asked to sign. The lender doesn't explain exactly how much extra money this will cost you each month on your loan. If you do notice, you're afraid that if you ask questions or object, you might not get the loan. The lender may tell you that this insurance comes with the loan, making you think that it comes at no additional cost. Or, if you object, the lender may even tell you that if you want the loan without the insurance, the loan papers will have to be rewritten, that it could take several days, and that the manager may reconsider the loan altogether. If

you agree to buy the insurance, you really are paying extra for the loan by buying a product you may not want or need.

### **Mortgage Servicing Abuses**

After you get a mortgage, you receive a letter from your lender saying that your monthly payments will be higher than you expected. The lender says that your payments include escrow for taxes and insurance even though you arranged to pay those items yourself with the lender's okay. Later, a message from the lender says you are being charged late fees. But you know your payments were on time. Or, you may receive a message saying that you failed to maintain required property insurance and the lender is buying more costly insurance at your expense. Other charges that you don't understand-like legal fees-are added to the amount you owe, increasing your monthly payments or the amount you owe at the end of the loan term. The lender doesn't provide you with an accurate or complete account of these charges. You ask for a payoff statement to refinance with another lender and receive a statement that's inaccurate or incomplete. The lender's actions make it almost impossible to determine how much you've paid or how much you owe. You may pay more than you owe.

### **Signing Over Your Deed**

If you are having trouble paying your mortgage and the lender has threatened to foreclose and take your home, you may feel desperate. Another "lender" may contact you with an offer to help you find new financing. Before he can help you, he asks you to deed your property to him, claiming that it's a temporary measure to prevent foreclosure. The promised refinancing that would let you save your home never comes through. Once the lender has the deed to your property, he starts to treat it as his own. He may borrow against it (for his benefit, not yours) or even sell it to someone else. Because you don't own the home any more, you won't get any money when the property is sold. The lender will treat you as a tenant and your mortgage payments as rent. If your "rent" payments are late, you can be evicted from your home.

## **PROTECTING YOURSELF**

You can protect yourself against losing your home to inappropriate lending practices. Here's how:

### **Don't:**

- Agree to a home equity loan if you don't have enough income to make the monthly payments.
- Sign any document you haven't read or any document that has blank spaces to be filled in after you sign.
- Let anyone pressure you into signing any document.
- Agree to a loan that includes credit insurance or extra products you don't want.
- Let the promise of extra cash or lower monthly payments get in the way of your good judgment about whether the cost you will pay for the loan is really worth it.

- Deed your property to anyone. First consult an attorney, a knowledgeable family member, or someone else you trust.

**Do:**

- Ask specifically if credit insurance is required as a condition of the loan. If it isn't, and a charge is included in your loan and you don't want the insurance, ask that the charge be removed from the loan documents. If you want the added security of credit insurance, shop around for the best rates.
- Keep careful records of what you've paid, including billing statements and canceled checks. Challenge any charge you think is inaccurate.
- Check contractor references when it is time to have work done in your home. Get more than one estimate. Read all items carefully. If you need an explanation of any terms or conditions, talk to someone you can trust, such as a knowledgeable family member or an attorney. Consider all the costs of financing before you agree to a loan.

# How To Remove Your Name From Marketing Lists

Many people become annoyed at all the advertising mail and pre-approved credit offers that arrive in their mailboxes on a daily basis. There are three main ways your name might get on a mailing list:

Magazines, credit card companies, clubs and organizations, charities, manufacturers and retailers make lists of their subscribers, customers, members and donors available to other businesses for a rental fee.

List compilers purchase information from various public and private sources to develop consumer databases for specific marketing purposes. Nearly everyone's name appears on compiled lists.

Credit bureaus, under carefully controlled procedures, provide lists of creditworthy consumers for companies to offer credit. These are called prescreened lists.

The Direct Marketing Association (DMA) compiles lists of consumers who prefer not to receive mail or telephone solicitations. DMA members use the DMA lists to remove names from their own mailing lists. If you write the DMA, you will be removed from DMA-member lists for three years. This can be done by writing to the following addresses:

**Mail Preference Service  
Direct Marketing Association  
P.O. Box 9008  
Farmingdale, NY 11735**

**Telephone Preference Service  
Direct Marketing Association  
P.O. Box 9014  
Farmingdale, NY 11735**

If you do not want to receive "pre-approved" credit offers, you can contact one of the bureaus to have your name removed from the lists of prospects. This contact is then shared with the other national credit reporting systems so you, the consumer, are not required to contact all three bureaus. This can be done by sending your full name, addresses for the past five years, social security number, date of birth, and signature to:

**Experian  
Consumer Opt Out  
P.O Box 919  
Allen TX 75013**

**Equifax Options  
P.O. Box 740123  
Atlanta, GA 30374-0123**

*Note:* If a written request is sent to Experian to opt out, you will be removed from Experian lists permanently. If a written request is sent to Equifax, you may choose to opt out for either two years or permanently (please specify length of time you choose to opt out if writing to Equifax).

Or... you may call the following numbers:

**Experian:** 800-353-0809  
**Trans Union:** 888-5-OPTOUT (567-8688)

Even though your request becomes effective within five days of your notification to the national credit reporting bureau, it may take up to three months before you see a reduction in the amount of solicitations.

Opting out will not end solicitations from all local merchants, religious and charitable associations, professional and alumni associations, politicians and companies with which you conduct business. To eliminate mail from these groups, write directly to each source.

# Identity Crisis...

## What to Do If Your Identity is Stolen

*"I don't remember opening that credit card account.  
And I certainly didn't buy those items I'm being billed for."*

Maybe you never opened that account, but someone else did...someone who used your name and personal information to commit fraud. When an imposter co-opts your name, your Social Security number (SSN), your credit card number, or some other piece of your personal information for his or her use—in short, when someone appropriates your personal information without your knowledge - it's a crime, pure and simple.

The biggest problem? You may not know your identity's been stolen until you notice that something's amiss: you may get bills for a credit card account you never opened, your credit report may include debts you never knew you had, a billing cycle may pass without your receiving a statement, or you may see charges on your bills that you didn't sign for, didn't authorize, and don't know anything about.

### **First Things First**

If someone has stolen your identity, the Federal Trade Commission recommends that you take three actions immediately.

First, **contact the fraud departments of each of the three major credit bureaus.** Tell them to flag your file with a fraud alert including a statement that creditors should get your permission before opening any new accounts in your name.

At the same time, ask the credit bureaus for copies of your credit reports. Credit bureaus must give you a free copy of your report if it is inaccurate because of fraud. Review your reports carefully to make sure no additional fraudulent accounts have been opened in your name or unauthorized changes made to your existing accounts. In a few months, order new copies of your reports to verify your corrections and changes, and to make sure no new fraudulent activity has occurred.

	<b>Report Fraud</b>	<b>Order Credit Report</b>	<b>Web Site</b>
Equifax	800-525-6285	800-685-1111	www.equifax.com
Experian	888-397-3742	888-397-3742	www.experian.com
Trans Union	800-680-7289	800-916-8800	www.transunion.com

Second, **contact the creditors for any accounts that have been tampered with or opened fraudulently.** Ask to speak with someone in the security or fraud department, and follow up in writing. Following up with a letter is one of the procedures spelled out in the Fair Credit Billing Act for resolving errors on credit billing statements, including charges that you have not made.

Third, **file a report with your local police or the police in the community where the identity theft took place.** Keep a copy in case your creditors need proof of the crime.

### **Next, Take Control**

Although identity thieves can wreak havoc on your personal finances, there are some things you can do to take control of the situation. Here's how to handle some of the most common forms of identity theft.

If an identity thief has stolen your mail for access to new credit cards, bank and credit card statements, pre-approved credit offers and tax information or falsified change-of-address forms, he/she has committed a crime. Report it to your local postal inspector.

If you discover that an identity thief has changed the billing address on an existing credit card account, close the account. When you open a new account, ask that a password be used before any inquiries or changes can be made on the account. Avoid using easily available information like your mother's maiden name, your birth date, the last four digits of your SSN or your phone number, or a series of consecutive numbers. Avoid the same information and numbers when you create a Personal Identification Number (PIN).

If you have reason to believe that an identity thief has accessed your bank accounts, checking account or ATM card, close the accounts immediately. When you open new accounts, insist on password-only access. If your checks have been stolen or misused, stop payment. If your ATM card has been lost, stolen or otherwise compromised, cancel the card and get another with a new PIN.

If an identity thief has established new phone or wireless service in your name and is making unauthorized calls that appear to come from-and are billed to-your cellular phone, or is using your calling card and PIN, contact your service provider immediately to cancel the account and calling card. Get new accounts and new PINs.

If it appears that someone is using your SSN when applying for a job, get in touch with the Social Security Administration (SSA) to verify the accuracy of your reported earnings and that your name is reported correctly. Call (800) 772-1213 to check your Social Security Statement.

In addition, the SSA may issue you a new SSN at your request if, after trying to resolve the problems brought on by identity theft, you continue to experience problems. Consider this option carefully. A new SSN may not resolve your identity theft problems, and may actually create new problems. For example, a new SSN does not necessarily ensure a new credit record because credit bureaus may combine the credit records from your old SSN with those from your new SSN. Even when the old credit information is not associated with your new SSN, the absence of any credit history under your new SSN may make it more difficult for you to get credit. And finally, there's no guarantee that an identity thief wouldn't also misuse a new SSN.

If you suspect that your name or SSN is being used by an identity thief to get a drivers license, report it to your Department of Motor Vehicles. Also, if your state uses your SSN as your driver's license number, ask to substitute another number.

### **Stay Alert**

Taking the steps outlined here should, in most cases, resolve your identity theft problems, but identity theft or related credit problems may reoccur. Stay alert to new instances of identity theft. Notify the company or creditor that's involved immediately. Follow up in writing.

Order a copy of your credit report from the three credit bureaus every year to check on their accuracy and whether they include only those debts and loans you've incurred. This could be very important if you're considering a major purchase, such as a house or a car.

# Payday Loans = Costly Cash

**"I just need enough cash to tide me over until payday."**

The ads are on the radio, television, the Internet, even in the mail. They refer to payday loans - which come at a very high price.

Check cashers, finance companies and others are making small, short-term, high-rate loans that go by a variety of names: payday loans, cash advance loans, check advance loans, post-dated check loans or deferred deposit check loans.

Usually, a borrower writes a personal check payable to the lender for the amount he or she wishes to borrow plus a fee. The company gives the borrower the amount of the check minus the fee. Fees charged for payday loans are usually a percentage of the face value of the check or a fee charged per amount borrowed - say, for every \$50 or \$100 loaned. And, if you extend or "roll-over" the loan - say for another two weeks - you will pay the fees for each extension.

Under the Truth in Lending Act, the cost of payday loans - like other types of credit - must be disclosed. Among other information, you must receive, in writing, the finance charge (a dollar amount) and the annual percentage rate or APR (the cost of credit on a yearly basis).

A cash advance loan secured by a personal check - such as a payday loan - is very expensive credit. Let's say you write a personal check for \$115 to borrow \$100 for up to 14 days. The check casher or payday lender agrees to hold the check until your next payday. At that time, depending on the particular plan, the lender deposits the check; you redeem the check by paying the \$115 in cash, or you rollover the check by paying a fee to extend the loan for another two weeks. In this example, the cost of the initial loan is a \$15 finance charge and 391 percent APR. If you roll-over the loan three times, the finance charge would climb to \$60 to borrow \$100.

## Alternatives to Payday Loans

There are other options. Consider the possibilities before choosing a payday loan:

- When you need credit, shop carefully. Compare offers. Look for the credit offer with the lowest APR - consider a small loan from your credit union, an advance on pay from your employer, or a loan from family or friends. A cash advance on a credit card also may be a possibility, but it may have a higher interest rate than your other sources of funds: find out the terms before you decide. Also, a local community-based organization may make small business loans to individuals.

- Compare the APR and the finance charge (which includes loan fees, interest and other types of credit costs) of credit offers to get the lowest cost.
- Ask your creditors for more time to pay your bills. Find out what they will charge for that service - as a late charge, an additional finance charge or a higher interest rate.
- Make a realistic budget, and figure your monthly and daily expenditures. Avoid unnecessary purchases - even small daily items. Their costs add up. Also, build some savings - even small deposits can help - to avoid borrowing for emergencies, unexpected expenses or other items. For example, by putting the amount of the fee that would be paid on a typical \$300 payday loan in a savings account for six months, you would have extra dollars available. This can give you a buffer against financial emergencies.
- Find out if you have, or can get, overdraft protection on your checking account. If you are regularly using most or all of the funds in your account and if you make a mistake in your checking (or savings) account ledger or records, overdraft protection can help protect you from further credit problems. Find out the terms of overdraft protection.
- If you need help working out a debt repayment plan with creditors or developing a budget, contact your local consumer credit counseling service. There are non-profit groups in every state that offer credit guidance to consumers. These services are available at little or no cost. Also, check with your employer, credit union or housing authority for no- or low-cost credit counseling programs.
- If you decide you must use a payday loan, borrow only as much as you can afford to pay with your next paycheck and still have enough to make it to the next payday.

## **To Complain**

If you believe a lender has violated the Truth in Lending Act, file a complaint with the Federal Trade Commission (FTC).

The FTC works for the consumer to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint, or to get free information call toll-free, **1-877-FTC-HELP** (1-877-382-4357).

# Security on the Internet

Shopping online offers lots of benefits that you won't find shopping in a store or by mail. The Internet is always open - seven days a week, 24 hours a day - and bargains can be numerous online. Shopping on the Internet is no less safe than shopping in a store or by mail. Keep the following tips in mind to help ensure that your online shopping experience is a safe one.

## **Use a secure browser**

This is the software you use to navigate the Internet. Your browser should comply with industry standards, such as Secure Sockets Layer (SSL). These standards encrypt or scramble the purchase information you send over the Internet, ensuring the security of your transaction. Most computers come with a browser already installed. You also can download some browsers for free over the Internet.

## **Shop with companies you know**

Anyone can set up shop online under almost any name. If you're not familiar with a merchant, ask for a paper catalog or brochure to get a better idea of their merchandise and services. Also, determine the company's refund and return policies before you place your order. These should be posted on the company's Web site.

## **Keep your password(s) private**

Be creative when you establish a password, and never give it to anyone. Avoid using a telephone number, birth date or a portion of your Social Security Number. Instead, use a combination of numbers, letters and symbols.

## **Pay by credit or charge card**

If you pay by credit or charge card online, your transaction will be protected under the Fair Credit Billing Act. Under this law, you have the right to dispute charges under certain circumstances and temporarily withhold payment while the creditor is investigating them. In the event of unauthorized use of your credit or charge card, you generally would be held liable only for the first \$50 in charges. Some companies offer an online shopping guarantee that ensures you will not be held responsible for any unauthorized charges made online, and some cards may provide additional warranty, return and/or purchase protection benefits.

## **Keep a record**

Be sure to print a copy of your purchase order and confirmation number for your records. Also, you should know that the mail/telephone order merchandise must be delivered within 30 days; and if there are delays, the company must notify you.

## **Pay your bills online**

Some companies let you pay your bills and check your account status online. Before you sign up for any service, evaluate how the company secures your financial and personal

information. Many companies explain their security procedures on their Web site. If you don't see a security description, call or email the company and ask.

## **PRIVACY ON THE INTERNET**

Technology now provides companies with the ability to collect information about you and potentially give or sell that information to others. While the Internet can serve as a tremendous resource for information, products and services, you should be sure to safeguard your privacy online by following these tips.

### **Keep your personal information private**

Don't disclose personal information - such as your address, telephone number, Social Security Number or email address - unless you know who is collecting the information, why they are collecting it and how they will use it. If you have children, teach them to check with you before giving out personal - or family - information online.

### **Look for a company's online privacy policy**

Many companies post their privacy policies on their Web site. This policy should disclose what information is being collected on the web site and how that information is being used. Before you provide a company with personal information, check its privacy policy. If you can't find a policy, send an email or written message to the web site to ask about its policy and request that it be posted on the site.

### **Make Choices**

Many companies give you a choice on their Web site as to whether and how your personal information will be used. These companies allow you to decline - or "opt-out" of - having personal information, such as your email address, used for marketing purposes or shared with other companies. Look for this choice as part of the company's privacy policy.

# Soldiers' and Sailors' Civil Relief Act

If you are a service member on active duty, you are under the umbrella of protection provided by the Soldiers' and Sailors' Civil Relief Act of 1940 from the day you take the oath to the day you leave military service. It is one of the most comprehensive and enduring packages of protection Congress has ever enacted on service members' behalf.

The Act covers any member of the Uniformed Services serving on active duty. This includes Guard and reserve component personnel called to active duty. In addition, the Act also covers Coast Guard personnel, and officers of the Public Health Service and the National Oceanic and Atmospheric Administration.

The Soldiers' and Sailors' Relief Act provides protections against undue burdens placed on service members. The Act can help service members with credit card and mortgage interest rates and civil litigation such as repossession of property, bankruptcy, foreclosure, or other such actions. Many of the provisions in the Act provide protection for the service member without any action needed by the service member. These provisions have been around for so long they are embedded in the way the federal and state governments and the courts deal with the special status of military personnel.

Some of the protections include:

- Protection against paying taxes in both your home state and the state in which you are stationed.
- Exemption from personal property taxes if you're stationed in a state that is not your domicile, such as an annual property tax on the value of your automobile. (Taxes on real estate are not included in this exemption.)
- The ability to have civil court cases delayed if you are unable to assert your rights under the laws because of military responsibilities.

There are some provisions that require the service member to take special action to receive a specific protection. For example, the ability to have credit card and mortgage interest rates lowered to a fixed rate of six percent requires the service member to show "material affect." The term "material affect" refers to how military service impacts people's lives and their ability to meet their obligations. To receive the interest rate protection, the service member entering active duty must show that their military income is less than their pre-service income, which then affects their ability to meet financial obligations. This protection is usually used by reserve component service personnel called to active duty for long deployments.

To obtain the interest rate reduction, the service member should notify their credit card companies or mortgage lenders in writing of their intent to invoke the six percent interest cap. Notification must include proof of mobilization/activation to active-duty status, as

well as documentation of reduced income, such as a leave and earnings statement. Interest rate reductions are not permanent. Service members are required to notify their creditors and/or lenders once their active duty service has ended. The interest rates held prior to deployment would then be reinstated. Service members cannot receive reduced interest on student loans.

Service members also have protections in civil proceedings under the “material affect” clause. Service members who are stationed overseas or who are on an extended deployment and who are involved in civil litigation are most often the ones who invoke this protection. If the service member can show that because of their military responsibilities that they cannot be properly represented in court for civil litigation, they can request a delay in the case until proper representation is possible.

Service members who encounter personal legal problems, and who believe they may qualify for protection under the Soldiers’ and Sailors’ Relief Act of 1940, should contact their unit or installation legal assistance office.

# Telemarketing Fraud

We've all been interrupted at one time or another in the middle of dinner with a call from a telemarketer. Here are some tips that can help you be a wise consumer when it comes to telemarketing.

## Warning Signs of Telemarketing Fraud

### High-pressure sales techniques

- Insistent on an immediate action.
- Offers that sound too good to be true.
- A request for your credit card number for any purpose other than to make a purchase.
- An offer to get your monthly payment quickly (i.e., pay for overnight mail, send someone to your home or office to pick it up).
- A statement that a product or service is free, followed by a request that you pay for something.
- Claims of an investment that is "without risk."
- Inability or refusal to provide written information or references about the company, product, service, or investment.
- Suggestions that you should make purchase or investment based on "trust."

## How to Avoid Being a Victim

- Don't be pushed into a decision.
- Request written information about organization and product or investment.
- Don't buy anything on terms you don't fully understand.
- Request the name of the federal agency by/with whom the firm is regulated or registered.
- Investigate the company or organization.
- Find out about refund, return, and cancellation policies.

- Don't believe testimonials you can't verify.
- Don't provide any personal financial information.
- If you must, hang up!

### **Federal Trade Commission Telemarketing Sales Rules**

To help familiarize you with the protections against pesky telemarketers and to explain how you can avoid becoming a victim, note the following summary of your protections. This will help you decide whether an offer is legitimate.

- It is illegal for a telemarketer to call you if you have asked not to be called.
- Calling times are restricted to the hours between 8:00 a.m. and 9:00p.m.
- Telemarketers must tell you it's a sales call, the name of the seller, and what they are selling before they make their pitch. They must "promptly" say they are selling something! If it's a prize promotion, they must tell you that no purchase is necessary to enter or win.
- It's illegal for telemarketers to misrepresent any information; any fact about their goods or services; earnings potential, profitability, risk, or liquidity of an investment; or the nature of a prize in a prize promotion scheme.
- Before you pay, telemarketers must disclose the total cost of the goods and any restrictions on getting or using them; or that a sale is final or non-refundable. In a prize promotion, they must specify the odds of winning, that no purchase or payment is necessary to win, and any restrictions or conditions of receiving the prize. Hang up if you're asked to pay for a prize - free is free.
- It's illegal for a telemarketer to withdraw money from your checking account without your express, verifiable authorization in written or taped form.
- Telemarketers cannot lie to get you to pay, no matter what method of payment you use.
- You do not have to pay for credit repair, recovery room, or advance - fee loan/credit services until these services have been delivered.
- It's illegal to help deceptive telemarketers if you know - or consciously avoid knowing - that they are breaking the law.

- Your state law enforcement officers now have the power to prosecute fraudulent telemarketers who operate across state lines. The rule carries a hefty \$ 10,000 fine for every violation!

For additional information, contact the Federal Trade Commission, Office of Consumer Education, Washington, DC 20580. Web site: **[www.ftc.gov](http://www.ftc.gov)**

# Tips For Avoiding Advance-Fee Loan Scams

Here are some tips to avoid being taken by an advance-fee loan scam:

- Legitimate lenders never "guarantee" or say that you are likely to get a loan or a credit card before you apply, especially if you have bad credit, no credit, or a bankruptcy.
- If you apply for a real estate loan, it is accepted and common practice for lenders to request payment for a credit report or appraisal. However, legitimate lenders never ask you to pay for processing your application.
- Never give your credit card account number, bank account information, or Social Security Number over the telephone or Internet unless you are familiar with the company and know why the information is needed.
- If you don't have the offer in hand -- or confirmed in writing -- and you're asked to pay, don't do it. It's fraud and it's against the law.

If you have been victimized by an advance-fee loan scam, file a complaint with the FTC by contacting the Consumer Response Center by phone: toll-free 1-877-FTC-HELP (382-4357); TDD: 202-326-2502; by mail: Consumer Response Center, Federal Trade Commission, 600 Pennsylvania Ave, NW, Washington, DC 20580. Although the Commission cannot resolve individual problems for consumers, it can act against a company if it sees a pattern of possible law violations.



## Consumer Awareness

1. Advertisements Promising Debt Relief  
May Be Offering Bankruptcy
2. Automatic Debit Scams
3. Avoiding Credit and Charge Card Fraud
4. Be a Smart Consumer - "Don't Get Taken"
5. Choosing A Credit Counselor
6. Home Equity Scams – Borrowers Beware!
7. How To Remove Your Name From Marketing Lists
8. Identity Crisis...  
What to Do If Your Identity is Stolen
9. Payday Loans = Costly Cash
10. Security on the Internet
11. Soldiers' and Sailors' Civil Relief Act
12. Telemarketing Fraud
13. Tips For Avoiding Advance-Fee Loan Scams
14. Using Ads to Shop for Home Financing