

If you are thinking about refinancing your home, federal law gives you three days to cancel after signing a refinancing, home equity or second home loan contract. This is called your "right of rescission." Within 20 days of canceling, you must receive a full refund of any money you paid.

Federal laws offer you additional protections if your loan is a "high rate, high fee loan" refinancing, home equity loan or second mortgage. Loans covered by these laws must have an interest rate that is at least 10 percentage points higher than the rates on Treasury securities of the same maturity. For example, the rate on a 30-year Treasury security was 5.17% in late 2003, which would cover loans with a rate of 15.17% or higher. The following provisions are prohibited on such loans:

- Balloon payments, a large lump-sum payment due at the end of the loan term.
- Negative amortization (when monthly payments don't cover the amount borrowed and the interest you owe).
- Default, or penalty rates (higher rates for consumers who fall behind on payments).
- A requirement to pay more than one monthly loan payment in advance.
- Prepayment penalties (a charge for paying off the loan early).

Large credit card debts make you a

Illegal practices

Lending money at a higher-than-average interest rate to someone with poor credit is not illegal, although some states cap loan rates to prevent usurious (unfair) interest rates. Under the federal Truth in Lending Act, lenders must inform applicants in advance about all terms and costs of the loan, including

If you have poor credit, try to shop for a fair deal that balances the risk that you might not pay with a higher-than-average interest rate.

Don't be lured into the very bad deals called "predatory lending." Predatory lenders exploit people with very high interest rates, excessive fees, no verification of the borrower's ability to repay, repeated refinancing of the loan and hidden loan terms such as enormous "balloon" payments that the borrower can't pay.

Predatory lenders often target desperate people, unsophisticated consumers and homeowners who own their home outright but who have small incomes. These lenders make loans to people who often don't have a chance of repaying them.

Predatory lending

debt consolidation, "pay day" loans and car title pawn. These services—often called predatory lending—can put people with already damaged credit deeper in debt.

Don't get taken

- Shop around for a loan among a variety of lenders, including banks and credit unions.
- Never give into sales pressure, a tactic that lenders use to get you to accept a bad deal.
- Discuss all deals before you sign with a knowledgeable family member, friend or co-worker or call local consumer groups or community organizations for advice.
- Read all contracts thoroughly before signing them. Don't sign contracts you don't understand.
- Ask for a complete overview of the loan terms, including fees, charges, terms and conditions. Ask to be shown each section of the loan as it is explained to you.
- If you negotiated for a loan in Spanish, ask if a Spanish translation of the contract is available.
- You have the legal right to know the amount of your monthly payment, the interest rate, how much time you have to pay back the loan and the total you'll pay (including interest and fees) over the term of the loan.

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But people with poor credit histories—"subprime" borrowers—have not been as responsible with credit cards and loans. They may have made payments late, abandoned loans without paying them off or opened multiple credit card accounts that they couldn't pay for. A large number of subprime borrowers are low-income individuals, minorities, the elderly and women. Lenders may also assign this label if you are self-employed, have little or no credit history, change jobs frequently or move often. Lenders require that subprime borrowers pay more for loans because they represent a higher risk.

Many major banks offer loans to both prime and subprime customers. Other companies specialize in lending to subprime customers by offering high-interest loans and services such as loans for

People with excellent credit histories are "prime" borrowers. This means they have credit (such as credit cards, car loans or mortgages) and pay their bills on time. Because their past history shows that they are responsible consumers, companies are willing to lend them money.

But people with poor credit histories—



orrowers with poor credit histories—

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**Poor Credit
means**

Higher



Interest Rates

**How to avoid
bad loans**

prime target for subprime lenders. Many people have run up huge credit card balances. They may not be eligible to transfer their balances to a lower rate card because they have damaged credit. Often homeowners with high credit card debt and damaged credit are targeted for home loans to consolidate debt. The lenders have a legal right to take your home and sell it if you don't repay the home loan.

Warning signs of a bad loan

Shop around and compare different offers. Avoid any loans with:

- Expensive closing costs. The law requires that borrowers be given a "good faith estimate" of all fees and costs for a loan. But even with the estimate, costs are often somewhat higher at closing, so make sure you have adequate funds on hand. However, if the costs double or triple the estimate, do not accept the loan.
- Balloon payments.
- Upfront fees as a requirement of receiving a loan.
- Telephone solicitations, door-to-door loan offers or any high-pressure sales tactics.
- Credit life or disability insurance policies required by the lender. These are money makers for the lender that will not benefit you. (An exception is title insurance when you buy property—get an owner's title policy.)
- Penalties for prepayment. This could cost you if you improve your credit his-

tory and want to refinance the loan at a lower rate.

- Unlicensed lenders. Always check licenses with your state department of real estate or other licensing agency.
- Documents with missing dates or blank spaces. Make sure the signature lines are part of the entire contract, not loose pages that could be added to a loan with different terms.
- Brokers who ask you to lie on a loan application so that you will qualify. It is a crime to lie on a credit application.
- A broker who recommends that you repeatedly refinance your loan. This is a scam that results in more profit for the lender.
- Get it in writing. Make sure all the terms you were promised are included in the contract. After the company's representative signs and dates the contract, make sure you get a signed copy. If you are refinancing your home mortgage, you have the legal right to change your mind for up to three days after you sign the loan.

- Check your credit. When you apply for a loan, the lender will check your credit history. Take a look at your credit report before the lender does. Reviewing your credit report will provide you with a list of most, if not all of your current debts, and give you a chance to make sure they are reported accurately.

You can get copies of your credit report from one of the big three credit reporting bureaus: Equifax (www.equifax.com, 800-685-1111), Experian (www.experian.com, 888-397-3742) and TransUnion (www.transunion.com, 800-888-4213). Each report costs about \$10. In 2005, a new law will give you the right to obtain a free copy of your credit report from all three companies every year. As the 2005 deadline nears, check Consumer Action's web site (www.consumer-action.org) for more information on how to order your free report.

If you have Internet access and would like to know how your credit compares to other U.S. consumers, visit MyFICO (www.myfico.com) and order a copy of your credit score from one or all of the major credit reporting bureaus. Each bureau report and score costs \$12.95. You'll need a debit card or credit card to pay for your order online.

Filing a complaint

State attorneys general

Check the state government section of your phone directory or visit the National Association of Attorneys General web site (www.naag.org) for a directory of state attorneys general.

State mortgage lending regulators

Check the government section of your phone directory or visit the Mortgage Bankers Association web site (http://www.mortgagebankers.org/state_update) for a list of state regulators.

Comptroller of the Currency

(For violations of federal lending and real estate settlement procedures laws.)

Customer Assistance Group

800-613-6743

www.occ.treas.gov

Department of Housing and Urban Development (HUD)

Office of Consumer and Regulatory Affairs

Interstate Land Sales/RESPA Division

202-708-4560

www.hud.gov/complaints/landsales.cfm

Federal Deposit Insurance Corporation (FDIC)

Consumer Affairs Division

877-ASK-FDIC (925-4618)

www.fdic.gov

Federal Trade Commission

(For federal lending violations involving mortgage and consumer finance companies)

Consumer Response Center

877-FTC-HELP (382-4357); TTY 202-326-2502

www.ftc.gov

Federal Reserve Board

Division of Consumer and Community Affairs

202-452-3693

www.federalreserve.gov/pubs/complaints/

Advice and assistance

- ACORN, the Association of Community Organizations for Reform Now, is an advocacy group active in protecting consumers from predatory lending. To find the chapter nearest you, visit the ACORN web site (www.acorn.org) or call 202-547-2500.
- Consumer Action (www.consumer-action.org) provides consumer advice, suggests appropriate complaint-handling agencies and offers free consumer education publications. Leave a message and a counselor will call you back. Chinese, English and Spanish spoken. 415-777-9635 and 213-624-8327, TTY: 415-777-9456; e-mail: hotline@consumer-action.org.
- The Federal Trade Commission accepts complaints from consumers for use in investigating violations and offers a wide range of publications on loans, home improvement and consumer rights. (It does not attempt to resolve individual complaints.) 877-FTC-HELP (382-4357), www.ftc.gov.
- The National Community Reinvestment Coalition offers "America's Best and Worst Lenders: A Consumers' Guide," which ranks lenders in 25 metropolitan areas. 202-628-8866, www.ncrc.org.
- Stop Mortgage Fraud (www.stopmortgagefraud.com) is a web site developed by the Mortgage Bankers Association. It has information on how to tell if you are the victim of a predatory mortgage loan and, if so, provides suggestions on where to complain.

Don't become a victim

The best way to protect yourself is not to sign a contract for a bad loan. It can be difficult for victims to get their money back and in many cases victims of bad auto or home loans lose their cars or homes.

If you have been taken advantage of by a lender, immediately contact your state lending or banking commissioner, your state attorney general and the federal Office of the Comptroller of the currency or the Federal Deposit Insurance Corporation for advice on filing a complaint. Also file a complaint with the Federal Trade Commission and with advocacy groups (see "Advice" and "Assistance" and "Complaints" sections). By contacting the proper authorities, you will establish a paper trail for your complaint and help regulatory agencies identify abusive lenders.

In most cases, the victims of unfair or deceptive loans have to hire an attorney to sue the lender. The National Association of Consumer Advocates' web site (www.naca.net) lists member attorneys by region and area of expertise, as well as tips on finding an attorney.