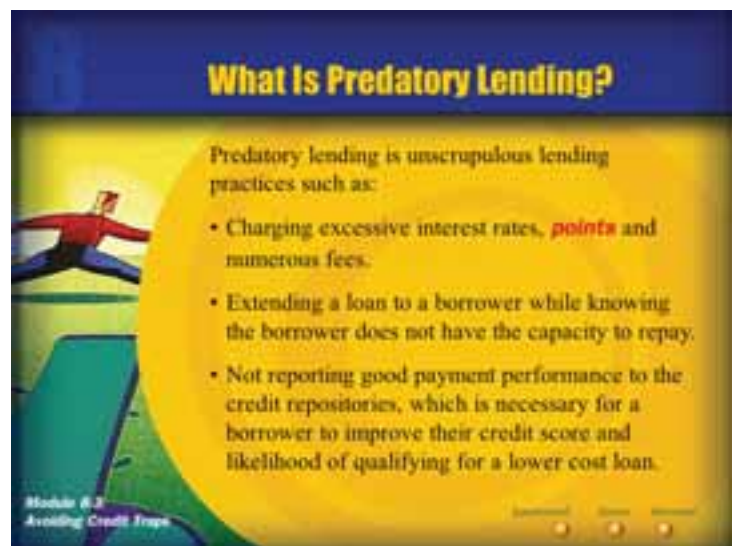
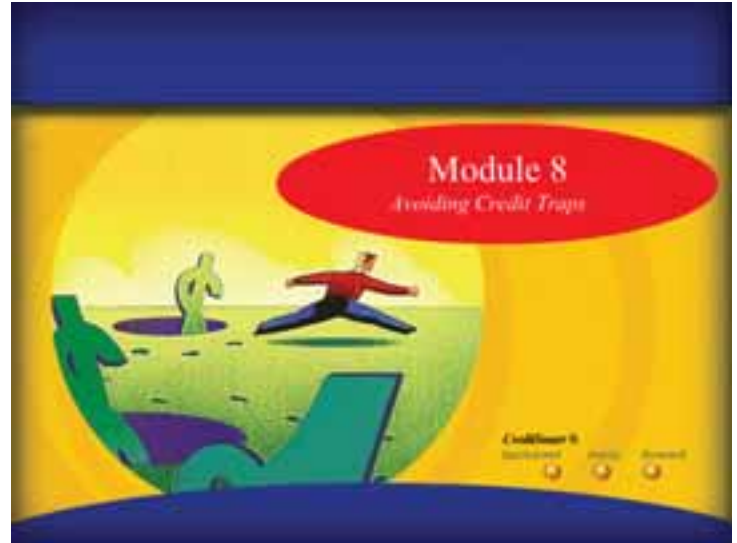
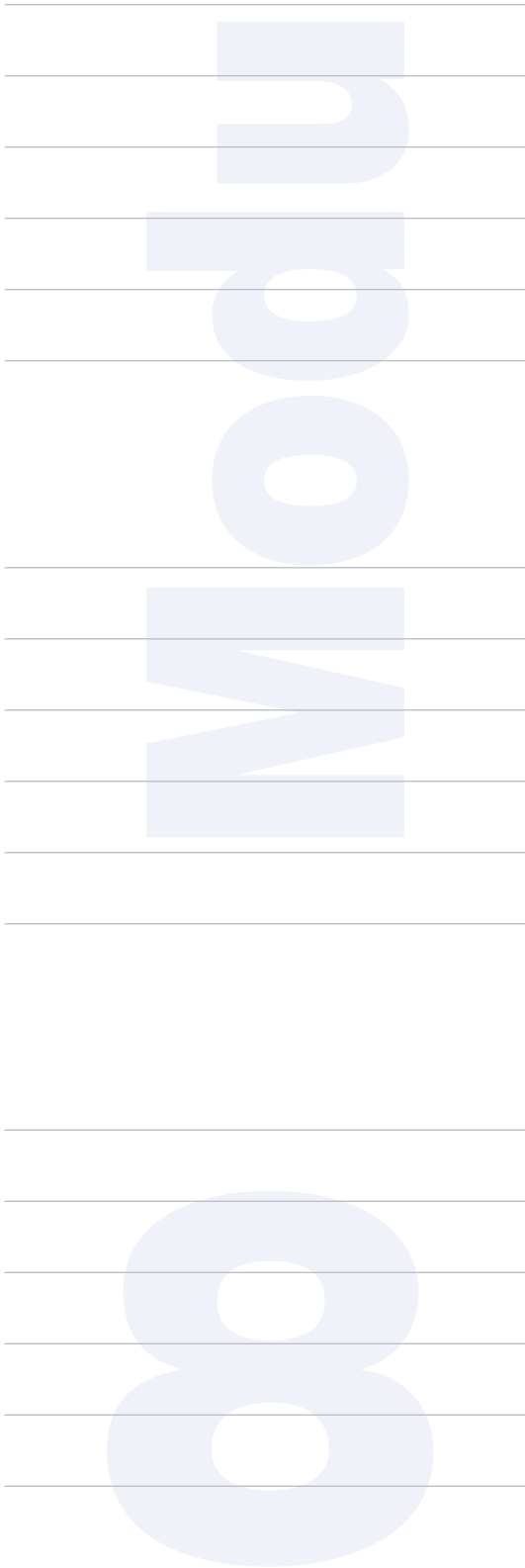


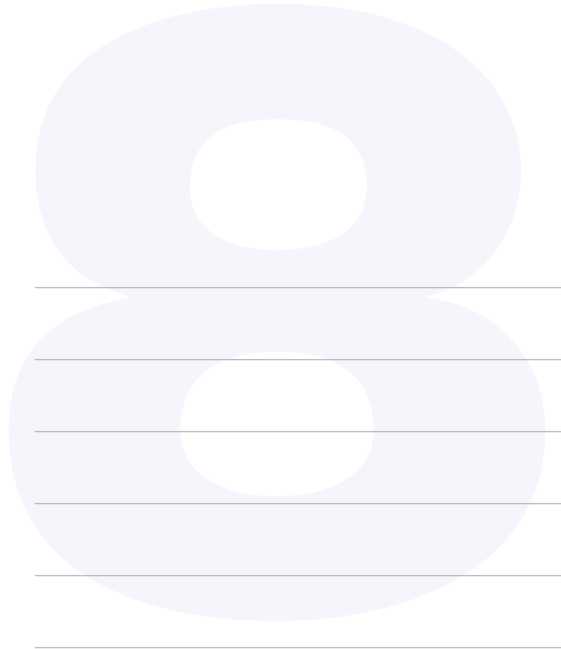
Module 8  
*Avoiding Credit Traps*





► **Presentation Slides**





### Check Cashing Businesses

Check cashing businesses sprang up decades ago in the Depression Era. Their growth was in response to employers starting to pay employees with checks and the need for places to cash the checks.

Module 8  
Avoiding Credit Traps

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### Check Cashing Businesses

For persons whose financial choices are currently limited, a few alternatives to check cashing companies are offered below:

- If possible, cash the check at the bank from which it was drawn.
- Do some comparison shopping; about one third of the check cashing industry (approximately 6,000) is owned by 6 companies.
- Start managing your finances so that you can save the money needed to open a checking and/or savings account.

Module 8  
Avoiding Credit Traps

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### High-Cost Cash Advances

Some check cashing businesses now offer their own types of loans: small, short-term loans that carry extremely high interest rates. Payday loans are so expensive that some states have prohibited these types of loans.

Module 8  
Avoiding Credit Traps

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### High-Cost Cash Advances

*Here is an example of why it is **always** best to avoid these types of businesses!*

A 6-week \$200 loan from a typical check cashing company can cost \$165 dollars in interest and fees.

*This is the equivalent to an effective annual percentage rate (APR) of **715%**.*

Module 8  
Avoiding Credit Traps

### Rent-to-Own Businesses

Rent-to-own businesses typically provide consumers with products for a monthly rental fee. Although seemingly affordable, given the cost of long-term rental agreements, consumers pay exorbitant prices for the products.

Module 8  
Avoiding Credit Traps

### Instant Income Tax Refund Scams

Protect yourself by learning about tax laws or using the services of a tax attorney or accountant.

*Beware of instant income tax refunds!*

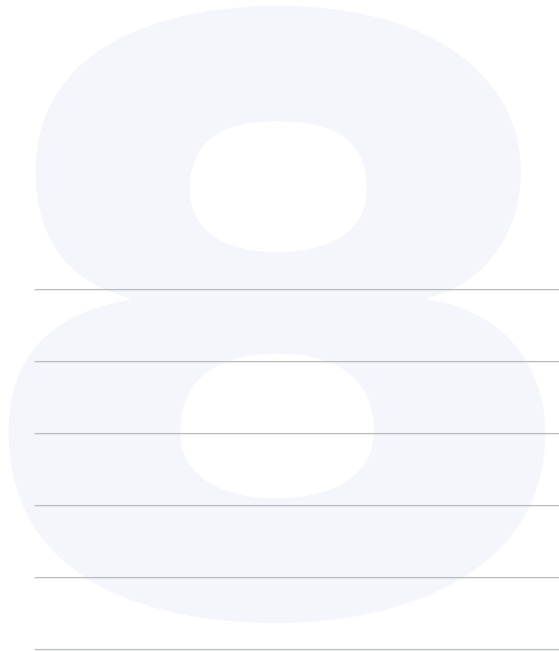
Module 8  
Avoiding Credit Traps

### Protect Yourself Against Telephone Solicitation Scams

There are many telephone scams, such as sweepstakes claims, travel scams, business opportunities, illegal charitable solicitations, work-at-home schemes and credit repair plans.

The number one goal of these operations is to get your money.

Module 8.19  
Avoiding Credit Traps

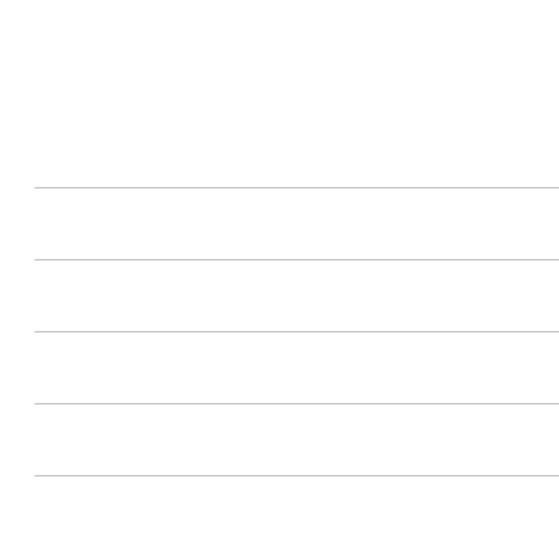


### Protect Yourself Against Telephone Solicitation Scams

*Tips From the National Fraud Information Center:*

- Get on the "Do Not Call" lists.
- Keep records and create a paper trail.
- Take action by exercising your right to sue.
- Negotiate a settlement.

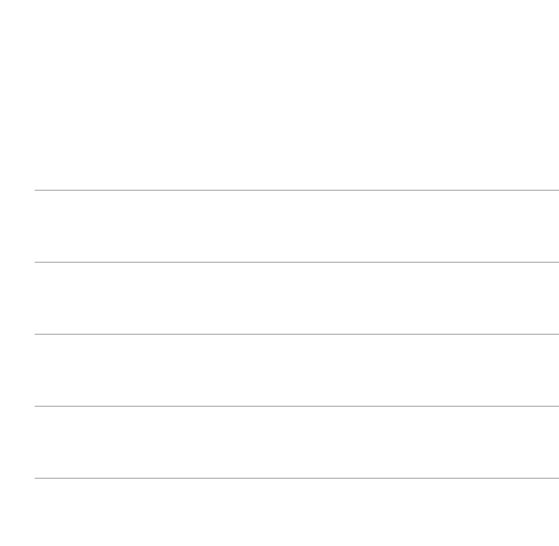
Module 8.19  
Avoiding Credit Traps



### Protect Yourself Against Identity Theft

Identity theft is when someone takes your personal information without your knowledge to commit fraud or theft.

Module 8.19  
Avoiding Credit Traps







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### Better Business Bureau's Home Repair Tips



- **Be active.** Ask the contractor for local references and talk with the customers to see how satisfied they were with the work performed. If possible, inspect the completed work.
- **Call your local Better Business Bureau or Consumer Affairs Office** to see how long the contractor has been in business and if any complaints have been filed against the company.

Module 8.19  
Avoiding Credit Traps

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### Better Business Bureau's Home Repair Tips



- **Consider a personal loan** or a loan from a bank or credit union when planning to finance home repairs or improvements.
- Your contractor may be able to help you find financing, but it is critical that **you** investigate the various sources of funding and compare amounts, interest rates, terms and tax considerations.

Module 8.20  
Avoiding Credit Traps

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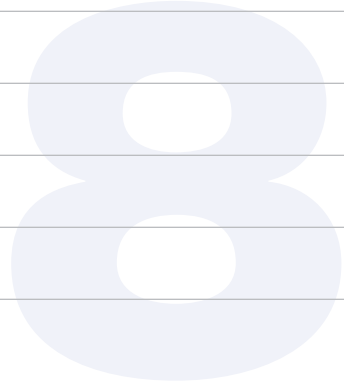
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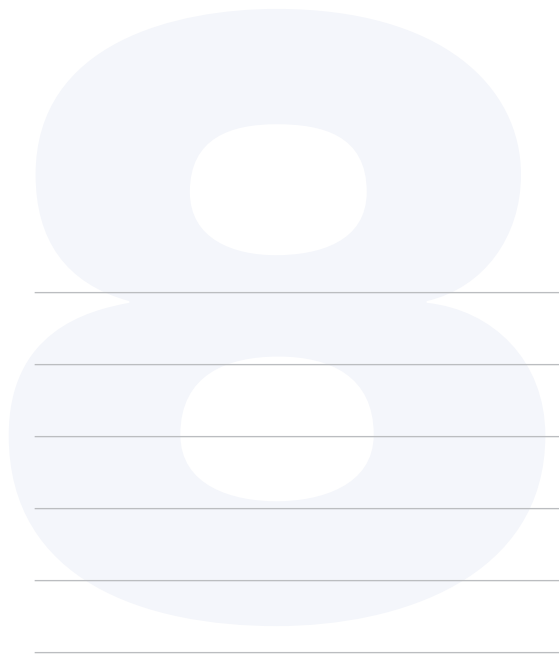
### Better Business Bureau's Home Repair Tips



- **Do not sign any agreement** until you have read it completely and understand **all** of its provisions.

**Never** submit to high pressure sales tactics!

Module 8.21  
Avoiding Credit Traps



### Home Equity Loans and Lines of Credit

If you already own a home, you are aware of the numerous companies offering **home equity loans** and **lines of credit**.

Although home equity may be an excellent way to borrow, homeowners need to exercise caution. Because an equity loan or line of credit is secured against your home, **defaulting** on the loan may cause the loss of your home due to foreclosure.

Module 8.23  
Avoiding Credit Traps

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### Home Equity Loans and Lines of Credit

Before accepting an offer for a home equity loan or a line of credit, homeowners should always carefully consider the following basic questions:

- Why do I need the loan? (home improvements, payment of tuition, a new car)
- What are the terms of the loan? (the interest rate and Annual Percentage Rate /APR?)
- Are there prepayment penalties?
- Is any type of credit insurance, like credit-life insurance, financed up-front in the loan?

Module 8.23  
Avoiding Credit Traps

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### Home Equity Loans and Lines of Credit

**Remember:**

Although a home equity loan or line of credit may be tax deductible, and in some cases may reduce your monthly debt obligation, you may be paying for the next 10 to 15 years or more.

For example, if you use these funds for a new car or a vacation, the car will need replacement and the memories of the vacation will be long gone before the debt is fully repaid.

Module 8.24  
Avoiding Credit Traps

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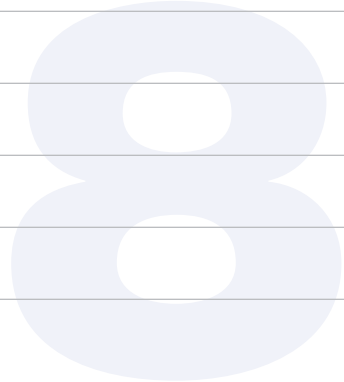
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### Home Equity Loans

(fixed or variable interest rate)

**Advantages:**

- Money is in a lump sum.
- Monthly payments do not vary (if fixed rate).
- Monthly payment could decrease (if variable).
- Loan amount is fixed (no temptation to borrow and spend more).
- Tax deductible.

Module 8.26  
Avoiding Credit Traps

### Home Equity Loans

(fixed or variable interest rate)

**Disadvantages:**

- The loan puts your home "at risk."
- The loan interest rate cannot decrease (if fixed, but may increase if variable interest rate).
- Interest rate may be higher than initial rate for a line of credit.
- Lender fees may be higher than with a line of credit.

Module 8.26  
Avoiding Credit Traps

### Line of Credit

(fixed or variable interest rate)

**Advantages:**

- You can withdraw money as needed and pay interest only on the amount withdrawn.
- The interest rate may decrease (if variable rate).
- The money is easily accessible (usually by writing a check).
- Introductory rates are usually lower than a fixed rate equity loan.

Module 8.27  
Avoiding Credit Traps

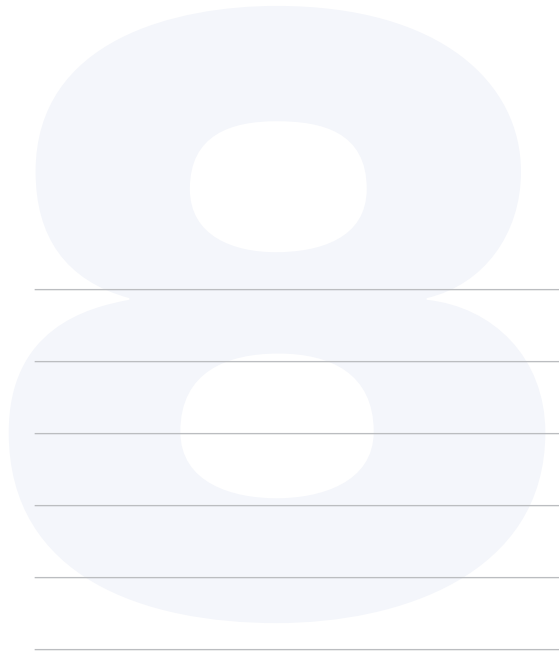
### Line of Credit

(fixed or variable interest rate)

**Disadvantages:**

- The loan puts your home "at risk."
- Monthly loan payments can vary (if variable).
- The interest rate may increase (if variable).
- Temptation to borrow and spend more.

Module 8.28  
Avoiding Credit Traps

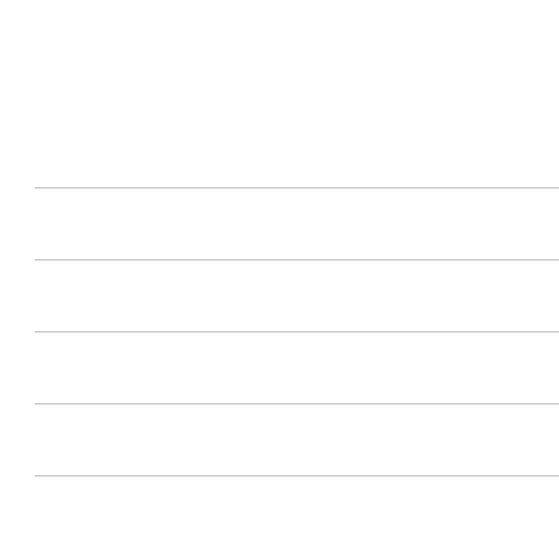


### Prepayment Penalty Mortgages

**What is a Prepayment Penalty Mortgage?**

A **prepayment penalty mortgage** (PPM) requires that you pay a fee (a percentage of the unpaid principal balance) if you repay your entire loan (or a substantial portion of it) within the prepayment penalty period.

Module 8.29  
Avoiding Credit Traps



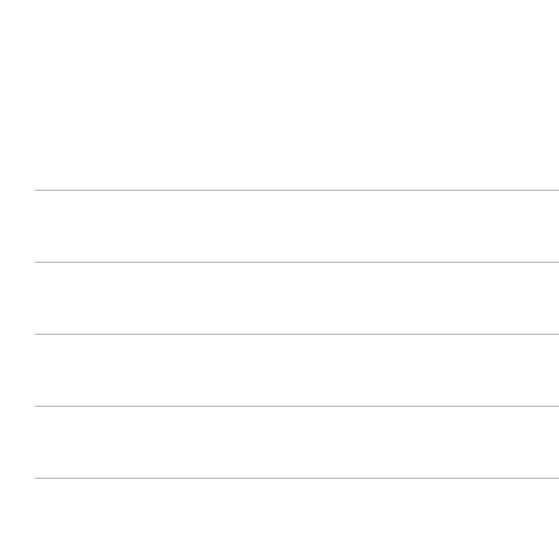
### Prepayment Penalty Mortgages

**Are There Advantages to a Prepayment Penalty Mortgage?**

Potential advantages may include:

- Possible cost savings benefits of reduced fees or closing costs.
- Possible lower interest rate.

Module 8.30  
Avoiding Credit Traps



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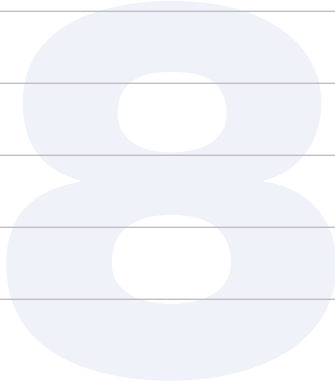
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## Prepayment Penalty Mortgages

**Disadvantages of a Prepayment Penalty Mortgage**

If you pay off your mortgage debt before it is due, or if you choose to refinance your loan, you may owe a prepayment penalty.

*PPMs are a borrower's choice, never a requirement.*

Module 8.25  
Avoiding Credit Traps

## SUMMARY

Be aware of credit practices and products with high interest rates and fees. **Never** agree to the extension of credit under pressure or if you do not understand all of the terms and conditions.

Additionally, try to avoid check cashing businesses, cash advances, rent-to-own businesses, income tax scams and telephone solicitations. Each of these can lead to serious credit problems.

Module 8.32  
Avoiding Credit Traps

## Key Terms to Remember

- Predatory Lending**
- Points**
- Home Equity Loan**
- Line of Credit**
- Default**
- Prepayment Penalty Mortgage**

Module 8.33  
Avoiding Credit Traps

## Avoiding Credit Traps

***Predatory lending practices are commonly defined as abusive lending practices that strip equity away from a homeowner. Predatory lending practices can include:***

- Targeting low-income people with poor credit and elderly homeowners with a large amount of equity in their homes by making unsolicited telephone and mail offers and/or sending “checks” that, if cashed, become a loan with unfavorable terms and interest rates.
- Using high-pressure sales tactics.
- Stressing paying only the monthly interest on the loan, and consequently there is no equity build-up.
- Having little or no concern about the borrower’s ability to repay the loan.
- Packing the loans with single premium credit insurance products, such as credit life insurance. Single premium credit insurance products that permit upfront financing of insurance premiums with borrower equity hold the potential for abuse, especially among uninformed borrowers, and are one of the single largest causes of home foreclosure in America today.
- Repeatedly refinancing a loan within a short period of time and charging high points and fees with each refinance.

***Other examples of questionable or costly practices and scams:***

- Some Check Cashing Businesses
- Identity Theft
- Cash Advances: High-Cost, Short-Term Loans, and Payday Loans
- Rent-to-Own Businesses
- Instant Income Tax Loans
- Telephone Solicitation Scams
- Home Repair Scams
- Internet Scams

As you have learned from the workshop, there are numerous types and variations of credit traps, predatory lending practices, and schemes to get your money and damage your credit. In addition to predatory lending, perhaps one of the latest and greatest areas of growth includes Internet solicitations and offers.



## ► **Financial Institutions: Alternatives to Check Cashing Businesses**

Consider establishing a relationship with a financial institution as an alternative to using a check cashing business:

- Try to save up enough money to equal the typical check cashing fee. Use the funds to open a savings account, and once opened, you will be able to use the financial institution to deposit and cash your checks. Every time you cash a check in the future, try to put the money that you would have paid to the check cashing business into your new savings account.
- A number of banks have recently begun offering low fee checking options. Be sure to ask about these special programs.

## ► **Identity Theft**

Identity theft is when someone takes your personal information without your knowledge to commit fraud or theft. Identity theft is on the rise in the U.S.

With ID theft, thieves take personal information about you, such as your Social Security number, credit card numbers, or other information. They might take it from your wallet, purse, mailbox, trash, or any other means.

The thieves might call your credit card companies and pretend to be you. They might ask to change the mailing address on your credit card account. They then use your credit card number to charge goods and services.

They might even open a new credit card account using your name, birth date, and Social Security number. If they use your name and Social Security number, the charges can show up as a delinquent account on your credit report since they will not pay the bill. The thieves could even open a bank account in your name and write bad checks.

### **How to Avoid Identity Theft**

To minimize the risk of identity theft, follow these recommendations from the FTC:

- **Before you reveal any personal information, find out how it will be used and whether it will be shared with others.**
- **Pay attention to your statements.** If your bills don't arrive on time, contact your creditor. A missing credit card bill might mean that the identity thief has changed your billing address and is using your account.
- **Guard your mail from thieves.** Pick up your mail from your mailbox as soon as possible. Place outgoing mail in post office collection boxes.
- **Do not give out personal information over the phone or through the mail unless you have initiated the contact and know with whom you are dealing.** Thieves may pose as bankers, government officials, or others to get you to reveal your Social Security number or bank account number.
- **Keep items with personal information safe.** When you throw away receipts, credit card applications, and old checks or statements, make sure to shred them.

- **When you make up your PIN for your credit, ATM, or debit card, don't use something a thief might guess, such as birth date, Social Security number, or phone number.**
- **Order a copy of your credit report at least once a year.** Catch mistakes and fraud before they ruin your personal finances.

### **Take Action Immediately!**

The FTC recommends the following actions if you believe you are a victim of identity theft. You can also call the FTC's Identity Theft Hotline at 1-877-IDTHEFT (438-4338).

#### **Take action immediately!**

*Keep records of your conversations and all correspondence.*

- **Contact the fraud department of the three major credit reporting agencies.** Tell them you are an identity theft victim. Ask them to place a "fraud alert" in your file. This alert means that any company that checks your credit will know that your information was stolen, and will therefore have to contact you by phone to authorize the extension of new credit. This will prevent anyone from continuing to illegally (without your knowledge or consent) use your credit. Ask the credit reporting agencies for a copy of the credit report. They must give you a free copy of your report if it is inaccurate because of fraud.
- **Contact your creditors about any accounts that have been changed or opened fraudulently.** Ask to speak with someone in the security or fraud department.
- **File a report with your local police.** Get a copy of the police report so you have proof of the crime.

## ► “Top 10 List” of Internet Scams

Recently, government officials have posted the “Top 10 list” of Internet scams that should be avoided.

- 1) **Internet auctions (failure to provide equipment or products)**
- 2) **Internet access services (traps consumers into long-term contracts with penalties for cancellation)**
- 3) **Credit card fraud (use of credit card information illegally/ without authorization)**
- 4) **International modem dialing (costly long-distance bills)**
- 5) **Web cramming (offering free customized web pages, then placing monthly charges on the victim’s phone bill)**
- 6) **Multi-level marketing pyramids (offering the opportunity to buy into plans and programs, many of which are illegal)**
- 7) **Travel and vacations (travel and accommodations or services with hidden charges and/or low quality)**
- 8) **Business opportunities (scams such as motivational tapes and stay-at-home businesses)**
- 9) **Investments (stock offers with “no risk” and “huge returns” which deliver neither)**
- 10) **Health care products (miracle products which turn out to be snake oil)**

Source: Federal Trade Commission ([www.ftc.gov](http://www.ftc.gov))



When using the Internet or purchasing products or services over the Internet, **ENTER AT YOUR OWN RISK** and **ALWAYS USE CAUTION WITH PERSONAL DATA OR CREDIT CARD INFORMATION!** It has been said that some purchases on the Internet are like buying stock from someone you don’t know in a dark alley.

## ► Tips From the Federal Trade Commission (FTC)

- 1) Never reveal your personal identifying information unless you know exactly whom you are dealing with and how it will be used.
- 2) Verify the details with any government agency that’s “involved” in any offer.

*If you do happen to give someone pertinent personal information, follow up by reading all of your bills carefully and by calling your creditors to dispute any charges that you didn’t make or authorize.*

## ► **Tips for Protecting Yourself Against Telephone Solicitation Scams**

*The National Fraud Information Center suggests the following tips:*

- **National “Do Not Call Registry.”** The Federal Trade Commission (FTC) has created the **National Do Not Call Registry\*** to make it easier for consumers to stop unwanted sales calls. You may register your phone number free of charge, by logging onto **[www.DONOTCALL.gov](http://www.DONOTCALL.gov)** or by dialing toll-free, **888-382-1222 (TTY 866-290-4236)**, from the number you wish to register.

**OR**

- **Get on the “Do Not Call” Lists.** Tell the caller to place you on the company’s “do not call” list. Federal law requires telemarketing companies to maintain such a list. Ask the caller if his or her employer conducts telemarketing for other companies. If they do, ask to be placed on those “do not call” lists as well.
- **Keep records.** Write down the date, company’s name, phone number, and address. You can also ask for the name of the person calling and the name of his or her supervisor. By law, they must give you this information. If a company calls you again after you have asked them not to, write down the name and date.
- **Create a paper trail.** If you receive a repeated phone call after being asked to be placed on the “do not call” list, write a letter to the company repeating your request.
- **You have a right to sue.** If the telemarketing company calls you after your written request, you can sue in small claims court under the Federal Telephone Consumer Protection Act, Public Law 102-243.
- **Take action.** To file a claim, look in the state government section of your telephone book for the closest small claims court. It is not expensive and is designed to be done without a lawyer. Also, you can usually get your court costs included in the settlement if you win.
- **Settling.** The company may approach you about settling your case. Feel free to negotiate your settlement. A company sometimes would rather pay you directly than go through the cost and trouble of defending itself in court.

***You may also want to file a complaint with the Federal Communications Commission, the Federal Trade Commission, or your State Attorney General’s office.***

***If you want further advice about telephone solicitations or if you want to report a possible scam, call the National Fraud Information Center at 800-876-7060.***

**NEVER sign any agreement until you have read it completely and understand ALL of its provisions. (Read the “fine print.”) NEVER submit to high-pressure sales tactics! Remember that patience is your best virtue.**

***\*For more information on the National Do Not Call Registry, please log on to [www.ftc.gov](http://www.ftc.gov) or call toll-free, 877-FTC-HELP (877-382-4357).***

## ► Home Equity Loans and Lines of Credit

### **Advantages**

#### **of Home Equity Loans**

*(fixed or variable interest rate)*

- Money is in a lump sum.
- Monthly payments do not vary (if fixed rate).
- Interest rate may decrease (if variable rate).
- Loan amount is fixed (no temptation to borrow and spend more).
- Tax-deductible.

### **Disadvantages**

#### **of Home Equity Loans**

*(fixed or variable interest rate)*

- The loan puts your home “at risk.”
- The loan interest rate cannot decrease (if fixed, but may increase if variable).
- The interest rate may be higher than the initial rate for a line of credit.
- Lender fees may be higher than with a line of credit.

### **Advantages**

#### **of a Line of Credit**

*(fixed or variable interest rate)*

- You can withdraw money as needed and pay interest only on the amount withdrawn.
- The interest rate may decrease (if variable).
- The money is easily accessible (usually by writing a check).
- Introductory rates are usually lower than a fixed-rate equity loan.

### **Disadvantages**

#### **of a Line of Credit**

*(fixed or variable interest rate)*

- The loan puts your home “at risk.”
- Monthly loan payments can vary (if variable).
- The interest rate may increase (if variable).
- Temptation to borrow and spend more.

## ► **Prepayment Penalty Mortgages**

Some consumers may be misinformed regarding the terms of a prepayment penalty mortgage (PPM). In order to avoid feeling trapped in a PPM, you should consider the following information before you make a choice. A prepayment penalty mortgage requires that you pay a prepayment penalty or fee (a percentage of the unpaid principal balance) if you repay your entire loan (or a substantial portion of it) within a certain time period. A substantial payment is defined as any amount that exceeds 20% of the original principal balance.

**Before you've chosen a PPM, make sure that you do not have to pay a penalty fee within the specified period of time if you sell your home.**

### **Advantages of a PPM**

- Possible cost savings benefits of reduced fees or closing costs.
- Possible lower interest rate.

### **Disadvantages of a PPM**

*If you pay off your mortgage debt before it is due, or if you choose to refinance your loan, you will owe a substantial prepayment penalty.*

Using a PPM is a personal decision that depends greatly on your current financial situation and how long you think you'll keep your mortgage before refinancing or making a large payment against it.

*Before choosing a PPM, be sure to obtain the following information from your lender in writing:*

- The terms of the mortgage provision containing the prepayment penalty.
- The amount of the penalty that you will be required to pay.
- The time period in which the penalty will be charged if you prepay or make a substantial payment on your loan.
- Any other conditions under which the lender may charge you a prepayment penalty.

*In addition, you should ask your lender several questions as you consider the pros and cons of a prepayment penalty mortgage, such as:*

- How much will I save on my closing costs or fees?
- Will my interest rate be lower if I accept a PPM?
- Under what conditions will the lender enforce the prepayment penalty?
- Will the lender enforce the prepayment penalty if I sell my home?
- How is the prepayment penalty calculated, and how much will it be on my loan?
- When can I prepay the loan without incurring a penalty?
- How does this mortgage compare to a non-PPM?

**BE SURE** to research all your options as you look for the right type of mortgage for you. Remember, your lender should be available to answer all of your questions and to help you make an informed decision. You may also wish to seek the assistance of a housing counselor in your area. **REMEMBER: PPMs are a borrower's choice, never a requirement.**