

Avoiding Dangerous Loans



**BANK ON
YOUR FUTURE**

Helpful Information:

Federal Trade Commission

Consumer help line: 1-877-382-4357.
Identity theft line: 1-877-438-4338.

Fannie Mae Foundation

Free guides on credit and home loans.
Call toll free: 1-800-611-9566.
Español: 1-800-782-2729.
www.homebuyingguide.com

Housing and Urban Development

Free advice on home buying.
Call toll free: 1-800-569-4287.
www.hud.gov or www.espanol.hud.gov

Online Consumer Help:

Federal Reserve Bank

Brochures on credit, finances, and how to buy
a car or home.
www.federalreserve.gov/consumers.htm

My Money

Financial education materials from U.S.
government agencies.
Call toll free: 1-888-MYMONEY (696-6639).
www.mymoney.gov
www.mymoney.gov/Espanol

Call the Attorney General's office in your state if
you believe that a provider of goods and services
has treated you unfairly.



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General Tips

Do not be pressured to buy something!

Never sign something that you don't understand.

Have important documents translated or explained by someone you trust.

Avoid using your house or car title to secure a loan. You may end up losing it if you can't make a payment!

To download all of the brochures in this series,
log on to www.appleseds.net

Credit History

It is important to have a good credit history so you can qualify for a loan when you need it. But some types of loans create more problems than they solve.

Questions to Ask About Loans:

Does the interest rate change over time?

Are there fees for this service?

What is the cost of the interest that I will have paid by the end of the loan period?

Are the loan documents available in my primary language?

Why Should I Avoid Payday Loans?

Some stores give you small cash advances if you write them a check from your checking account. The store holds your check until your next payday and then cashes it.

However, for a two-week payday advance, you will typically pay \$15 for every \$100 you borrow. If you borrow often or cannot pay off these advances, you could owe many times more in fees than you actually borrow!



Even worse, many people are unable to repay their loans on payday and end up trapped in debt.

There is an alternative! Credit unions or banks may offer small, short-term loans to their customers at reasonable rates. A local community group may be able to help you find other solutions.

Is Rent-to-Own A Good Deal?

Rent-to-own offers may sound good, but they can be terrible traps. Typically, in rent-to-own situations, you will pay 2 to 5 times more than the cost of the same item at a discount store.

For example, a rent-to-own TV may cost \$9.99 per week for 78 weeks. So the renter ends up paying \$779 for a TV priced at \$196 in the store.

If you miss a payment you could lose the item AND all of the money you already paid towards owning it!

There is an alternative! Save your money to buy what you need, pay for an expensive item in three or four installments, or take out a small, short-term loan.

What Home Loans Should I Avoid?

Buying a home can be a good investment, but there are many dangerous deals out there that unnecessarily increase your costs. Beware of the following offers:

High points and fees. Points and fees should not total more than 3% of your loan amount or 4% for FHA or VA loans.

High interest rates. It is easy to verify current mortgage rates by looking in a Sunday paper or asking at the bank or credit union. Don't pay more than the going rate.

“Balloon payments.” Do not agree to a loan where, after several years of manageable monthly payments, you have to repay the remainder of the loan in one large “balloon payment.” If you can't afford the last payment, you could lose the house!

Home equity loans. Offers to consolidate your debt in a home equity loan may save you money in the short run, but you could end up losing your house if you can't make your payments.

Prepayment penalties. These are high and unnecessary fees charged for paying off your loan. They can prevent you from refinancing to obtain lower rates or from selling your home.

Single payment credit insurance. You don't need to buy credit life or disability insurance. Never pay insurance fees up front or allow the fees to be added into your loan.